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ENERGY
CORP.

ANNUAL INFORMATION FORM
For the year ended December 31, 2009
Dated as of March 25, 2010

MGM ENERGY CORP.

2009 Annual Information Form
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GLOSSARY OF TERMS

All capitalized terms used in this Annual Information Form but not otherwise defined herein shall have the meanings ascribed to them under “Glossary of Terms”. The information set out in this Annual Information Form is stated as at December 31, 2009 unless otherwise specifically stated.

“**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended;

“**Acquisition**” means the acquisition by the Corporation of the Umiak Assets pursuant to the Umiak Acquisition Agreement;

“**Ancillary Asset**” means the oil and gas interests with proved reserves acquired by the Corporation from Paramount pursuant to the Arrangement under the Ancillary Asset Transfer Agreement, in order for the Corporation to meet the listing requirements of the TSX;

“**Ancillary Asset Transfer Agreement**” means an asset transfer agreement between Paramount and the Corporation providing for the transfer from Paramount to the Corporation of the Ancillary Asset;

“**Arrangement**” means the arrangement pursuant to Section 193 of the ABCA effective January 12, 2007 involving Paramount, security holders of Paramount and the Corporation, on the terms and conditions set forth in the plan of arrangement attached as Schedule 1 to the Arrangement Agreement;

“**Arrangement Agreement**” means the arrangement agreement dated as of December 7, 2006 between Paramount and the Corporation with respect to the Arrangement;

“**Board of Directors**” or “**Board**” means the board of directors of the Corporation, unless otherwise indicated;

“**Class A Preferred Shares**” means the Class A preferred shares in the capital of the Corporation;

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook prepared by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society);

“**Common Shares**” means the common shares in the capital of the Corporation;

“**Computershare**” means Computershare Trust Company of Canada, a trust company existing under the laws of Canada;

“**Contingent Resources**” means those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations but are not currently economic due to, in the case of the Corporation’s Resources: (i) lack of pipeline infrastructure, making the project uneconomic on a stand alone basis; (ii) potential regulatory issues with respect to the construction of the pipeline and facility infrastructure; (iii) lack of demonstrated intent to bring the volumes to market within a specific time frame; and (iv) insufficient drilling or technical data to be able to accurately estimate total pool productivity;

“**Corporation**” or “**MGM Energy**” means MGM Energy Corp.;

“**DTC**” means the decision to construct the Mackenzie Valley pipeline;

“**Exploration Licence**” or “**EL**” means a licence to explore for hydrocarbons granted by the Government of Canada;

“**Farmin Properties**” means the rights transferred under the MDFI Agreement, as amended by the Restructured MDFI Agreement, respecting Mackenzie Delta, Northwest Territories Exploration Licence #394, Exploration Licence #427 and Inuvik Concession Blocks 1 and 2 covering approximately 412,500 hectares;

“Flow-Through Shares” means Common Shares issued that are “flow-through shares” as defined in subsection 66(15) of the Tax Act;

“GAAP” means generally accepted accounting principles as set out in the handbook of the Canadian Institute of Chartered Accountants, at any particular time;

“Gross” or **“gross”** means:

- (a) in relation to the Corporation’s interest in production or reserves, the Corporation’s gross reserves, which are its working interest (operating or non-operating) share before deduction of royalties and without including any of the Corporation’s royalty interests;
- (b) in relation to Resources, the total Resources of a well or an area in which the Corporation has an interest;
- (c) in relation to wells, the total number of wells in which the Corporation has an interest; and
- (d) in relation to properties, the total area of properties in which the Corporation has an interest;

“Inuvik Concession Block” means lands in the Inuvik area of the Inuvialuit Settlement Region that are referred to as Inuvik Concession Blocks 1 and 2;

“Joint Review Panel” means a seven member, independent body established for the purpose of reviewing the environmental and socio-economic effects associated with the Mackenzie Valley pipeline;

“Longer Term Warrants” means the share purchase warrants of the Corporation issued pursuant to the Arrangement which entitled the holders thereof to purchase either Common Shares at a price of \$6.00 per share or Flow-Through Shares at a price of \$7.50 per share and that expired on September 30, 2007;

“Mackenzie Evaluation” means that evaluation entitled Mackenzie Gas Project Gas Resource and Supply Study by Gilbert Laustsen Jung Associates Ltd., independent petroleum engineers, effective May 1, 2004, and presented to the NEB as part of the Mackenzie Valley pipeline application by Imperial Oil Resources Ventures Limited;

“McDaniel” means McDaniel & Associates Consultants Ltd., independent petroleum engineering consultants carrying on business in Calgary, Alberta;

“McDaniel Report” means the independent engineering evaluation prepared by McDaniel dated February 10, 2010, effective December 31, 2009, evaluating the Corporation’s crude oil, natural gas liquids and natural gas reserves attributable to the Ancillary Asset;

“MDFI Agreement” means the farm-in agreement in respect of certain oil and gas properties in the Mackenzie Delta in the Northwest Territories among Paramount, Chevron Canada Limited and BP Canada Energy Company dated September 14, 2006, which was subsequently restructured in May 2009 as the Restructured MDFI Agreement;

“MDFI Assignment Agreement” means the notice of assignment between Paramount and MGM Energy dated January 12, 2007;

“MGM Energy Shareholders” means the holders of Common Shares and **“MGM Energy Shareholder”** means any one of them;

“National Energy Board” or **“NEB”** means The National Energy Board of Canada;

“**Net**” or “**net**” means:

- (a) in relation to the Corporation’s interest in production or reserves, the Corporation’s working interest (operating or non-operating) share after deduction of royalty obligations, plus the Corporation’s royalty interests in production or reserves;
- (b) in relation to the Corporation’s interest in Resources, the gross amount in which the Corporation has an interest multiplied by the working interest owned by the Corporation;
- (c) in relation to the Corporation’s interest in wells, the number of wells obtained by aggregating the Corporation’s working interest in each of its gross wells; and
- (d) in relation to the Corporation’s interest in property, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation;

“**New Services Agreement**” means the services agreement between Paramount and the Corporation dated effective January 1, 2010 pursuant to which Paramount provides certain services to the Corporation;

“**NI 51-101**” means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

“**Non-Voting Common Shares**” means the non-voting common shares of the Corporation;

“**Paramount**” means Paramount Resources Ltd. and, where the context requires, refers to Paramount and subsidiaries and partnerships directly and indirectly owned by it;

“**Paramount Shares**” means Class A common shares in the capital of Paramount;

“**Person**” means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity, whether or not having legal status and includes MGM Energy;

“**Preferred Shares**” means the preferred shares in the capital of the Corporation, issuable in series;

“**Previous Discoveries**” means the existing discovery wells, Langley K-30, Olivier H-01 and Ellice I-48, and the existing discovery lands surrounding the discovery wells;

“**Prospective Resources**” means those quantities of oil and gas estimated, as of a given date, to be potentially recoverable from undiscovered or untested accumulations by application of future development projects;

“**Proved Reserves**” are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty;

“**Qualified Reserves Auditor**” means an individual who:

- 1. in respect of particular reserves data, Resources or related information, possesses professional qualifications and experience appropriate for the estimation, evaluation, review and audit of the reserves data, Resources and related information; and
- 2. is a member in good standing of a professional organization;

“**Qualified Reserves Evaluator**” means an individual who:

1. in respect of particular reserves data, Resources or related information, possesses professional qualifications and experience appropriate for the estimation, evaluation and review of the reserves data, Resources and related information;
2. is a member in good standing of a professional organization; and
3. in respect of Resources estimates, is an individual who is not independent of the Corporation;

“**Reserves**” or “**reserves**” are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates;

“**Resources**” means Contingent Resources and/or Prospective Resources;

“**Restructured MDFI Agreement**” means the agreement dated May 4, 2009 between MGM Energy, Chevron Canada Limited, BP Canada Energy Company and BP Canada Energy Resources Company to restructure the MDFI Agreement whereby, among other things, the Corporation will not be required to drill the final three wells or complete additional seismic acquisition until after DTC;

“**Sahtu/Colville Lake Assets**” means the oil and gas interests with Resources acquired by the Corporation from Paramount pursuant to the Arrangement;

“**SDL**” or “**Significant Discovery License**” means a licence issued by the Department of Indian and Northern Affairs Canada on lands encompassing a significant discovery of oil and gas, providing the holder with the right to develop the lands in order to produce oil and gas and exclusive rights to obtain a production licence for the lands;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval;

“**Services Agreement**” means the services agreement between Paramount and the Corporation pursuant to which Paramount provided administrative, operational and other services to the Corporation from incorporation to December 31, 2007 and which was replaced by subsequent service agreements;

“**Short Term Warrants**” means the share purchase warrants of the Corporation issued pursuant to the Arrangement, which entitled the holders thereof to purchase either Common Shares at a price of \$5.00 per share or Flow-Through Shares at a price of \$6.25 per share and which expired on February 16, 2007;

“**Spinout Assets**” means the oil and gas interests in the Mackenzie Delta areas in northern Canada being the Farmin Properties and the Sahtu/Colville Lake Assets which were conveyed from Paramount to the Corporation in connection with the Arrangement under the Spinout Assets Transfer Agreement;

“**Spinout Assets Transfer Agreement**” means an asset transfer agreement between Paramount and the Corporation providing for the transfer of the Spinout Assets from Paramount to the Corporation;

“**Stock Option Plan**” means the stock option plan of the Corporation;

“**Tax Act**” means the *Income Tax Act* (Canada) as amended, including the regulations thereunder;

“**TSX**” means the Toronto Stock Exchange;

“**Umiak Acquisition Agreement**” means the asset sale agreement between MGM Energy and EnCana Corporation to purchase the Umiak Assets from EnCana Corporation dated May 8, 2007;

“**Umiak Assets**” means all of the petroleum and natural gas interests, properties and related assets that the Corporation acquired pursuant to the Umiak Acquisition Agreement, being a 60% working interest in the Umiak

discovery in the Mackenzie Delta, a 60% working interest in federal Exploration License 434, seismic data, interests in 14 significant discovery licenses both onshore and offshore in the Mackenzie Delta and other assets consisting principally of material and equipment; and

“**Warrant Unit**” means a unit consisting of one Short Term Warrant and one Longer Term Warrant.

CONVENTIONS

Certain other terms used but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, will have the same meanings herein as ascribed to them in NI 51-101. Unless otherwise indicated, references herein to “\$” or “dollars” are to Canadian dollars. All financial information with respect to the Corporation has been presented in Canadian dollars in accordance with GAAP.

ABBREVIATIONS AND EQUIVALENCIES

The following are abbreviations and definitions of terms used in this Annual Information Form.

<u>Crude Oil and Natural Gas Liquids</u>		<u>Natural Gas</u>	
bbl	barrel	Bcf	billion cubic feet
bbls	barrels	Mcf	thousand cubic feet
bbls/d	barrels per day	Mcf/d	thousand cubic feet per day
Mbbls	thousand barrels	Mmcf	million cubic feet
NGL	natural gas liquids	Mmcf/d	million cubic feet per day
		MMBtu	million british thermal units
		Tcf	trillion cubic feet

Other

boe	barrel of oil equivalent
boes	barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

CONVERSIONS

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains certain forward-looking statements. Forward-looking statements are typically identified by words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “may”, “will”, “project”, “should” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this Annual Information Form include, but are not limited to, statements with respect to the Corporation’s operations, the Corporation’s ability to access capital markets to fund its operations, the Corporation’s anticipated financial performance, the Corporation’s business strategy and objectives, capital expenditures to be made by the Corporation on its properties and the timing and method of financing thereof, drilling plans and timing of drilling, the Corporation’s Resources and reserve estimates, the Corporation’s exploration and development plans, the Corporation’s plans respecting the transportation of its oil, natural gas and natural gas liquids to market, projections of commodity prices and costs and the Corporation’s plans to ultimately retain all of its own personnel.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. These forward-looking statements reflect the Corporation’s current views and by their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other things contemplated by the forward looking statements will not occur. Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect, including assumptions as to future economic conditions and courses of action, as well as other factors that the Corporation believes are appropriate in the circumstances. Such forward-looking statements are subject to risks and uncertainties and no assurance can be made that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Corporation will derive from them. In addition to other assumptions identified in this Annual Information Form, assumptions have been made regarding, among other things:

- general economic and financial market conditions;
- the ability of the Corporation to obtain drilling success consistent with expectations;
- the ability of the Corporation to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of the Corporation to market its oil and natural gas and to transport its oil and natural gas to market;
- the timing and cost of pipeline and facility construction and expansion and the ability of the Corporation to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of the Corporation to obtain capital to finance its exploration, development and operations; and
- future oil and gas prices.

Statements relating to “reserves” and “Resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and Resources described can be profitably produced in the future.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- lack of transportation and inability to produce oil and natural gas reserves and Resources;
- liabilities inherent in oil and natural gas operations;

- adverse regulatory rulings, orders and decisions;
- uncertainties associated with estimating oil and natural gas reserves and Resources;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands, skilled personnel and access to services;
- fluctuation in foreign exchange or interest rates;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- stock market volatility and market valuations;
- geological, technical, drilling and processing problems and other difficulties in producing reserves and Resources;
- actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry;
- failure to realize the anticipated benefits of acquisitions; and
- other factors, many of which are beyond the control of the Corporation, including those factors identified under the heading “Risk Factors” in this Annual Information Form.

Although it is believed that the expectations represented by such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The material risks and other factors which could cause results to differ materially from those expressed in the forward looking statements contained in this Annual Information Form respecting the Corporation and its business are set forth in “Risk Factors”. MGM Energy Shareholders are urged to carefully consider those factors as well as the information contained elsewhere in this Annual Information Form.

The reader is cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the lists of factors above and as set forth in “Risk Factors” are not exhaustive. Consequently, there are no representations by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Before placing any reliance on any forward-looking statements to make decisions with respect to an investment in securities of the Corporation, investors and others should carefully consider the factors identified above and all other risks, uncertainties and potential changes that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Furthermore, the forward-looking statements contained in this Annual Information Form are made as of the date hereof, and the Corporation undertakes no obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

CORPORATE STRUCTURE

The Corporation was incorporated under the ABCA on October 31, 2006 under the name “1278517 Alberta Ltd.”. The Corporation was formed in order to effect the Arrangement, whereby the Corporation acquired the Spinout Assets and the Ancillary Asset. On December 4, 2006, the Corporation’s articles were amended to change its name to “MGM Energy Corporation”. The Corporation’s articles were further amended on January 9, 2007 to change the Corporation’s name to “MGM Energy Corp.”, to create two new classes of shares designated as Preferred Shares and Class A Preferred Shares, to amend the existing rights of the Common Shares and to fix the minimum and maximum number of directors at three and twelve, respectively. On March 3, 2010, the articles of the Corporation

were further amended to create a new class of shares designated as Non-Voting Common Shares. For details, see “General Development of the Business – History”.

The Corporation does not have any subsidiaries. The Corporation is a “reporting issuer” in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and the Northwest Territories. The Corporation is also a “reporting issuer” or the equivalent in the provinces of New Brunswick, Prince Edward Island and Newfoundland and Labrador.

The head office of the Corporation is located at Suite 4100, 350 - 7th Avenue S.W., Calgary, Alberta, T2P 3N9. The registered office of the Corporation is located at Suite 2500, 450 - 1st Street, S.W., Calgary, Alberta, T2P 5H1.

GENERAL DEVELOPMENT OF THE BUSINESS

History

The following is a summary of significant events in the development of the Corporation’s business since its incorporation on October 31, 2006.

The Corporation was spun out of Paramount pursuant to the Arrangement, with its initial assets being Paramount’s central Mackenzie Valley and Mackenzie Delta oil and gas interests. The Arrangement and related matters received the approval of 99.96% of the votes cast by the shareholders of Paramount at a special meeting held on January 11, 2007 as well as the approval of the Court of Queen’s Bench of Alberta by final order on January 11, 2007. The Arrangement became effective on January 12, 2007.

The spinout resulted in the shareholders of Paramount receiving, for every 25 Paramount Shares held, one Common Share and five Warrant Units, with each Warrant Unit consisting of one Short Term Warrant and one Longer Term Warrant.

Pursuant to the Arrangement, the Spinout Assets and the Ancillary Asset were transferred from Paramount to the Corporation for the consideration described below and the holders of the Paramount Shares were issued an aggregate of approximately 2.8 million Common Shares and 14.2 million Warrant Units. As consideration for the Spinout Assets, Paramount received \$112 million of consideration from the Corporation consisting of 18.2 million Class A Preferred Shares issued at a stated issue price of \$5.00 per share, convertible into Common Shares on a one-for-one basis, a promissory note having a principal amount of \$12 million and the cancellation of an outstanding promissory note of Paramount held by the Corporation in the principal amount of \$9 million. Paramount determined the \$112 million payable for the Spinout Assets based on the historical capital expenditures incurred by Paramount on the Sahtu/Colville Lake properties, Paramount’s costs of capital related to those expenditures and an estimate of the expenditures incurred and to be incurred by Paramount under the MDFI Agreement up to the closing date of the Arrangement. As consideration for the Ancillary Asset, an outstanding promissory note of Paramount held by the Corporation in the principal amount of \$5 million was cancelled. Paramount determined the \$5 million payable for the Ancillary Asset based on the net present value (discounted at 10%) of the proved plus probable reserves attributable to the Ancillary Asset as evaluated by McDaniel as of October 31, 2006. For further information concerning the Arrangement, see the information circular and proxy statement of Paramount dated December 8, 2006, which is available on SEDAR at www.sedar.com under Paramount’s profile.

The Common Shares and the Warrant Units commenced trading on the TSX under the symbols “MGX” and “MGX.WT.A”, respectively, on January 17, 2007. The Warrant Units ceased being traded on February 17, 2007 when the Short Term Warrants expired and the Longer Term Warrants were separated. The Longer Term Warrants commenced trading on the TSX under the symbol “MGX.WT.B” on March 2, 2007 and ceased being traded on September 30, 2007 when they expired.

As at February 16, 2007, of the 14,163,365 Short Term Warrants issued, an aggregate of 13,824,141 Short Term Warrants had been exercised by warrant holders, resulting in 7,917,611 Common Shares being issued at a price of \$5.00 per share and 5,906,530 Flow-Through Shares issued at a price of \$6.25 per share for gross proceeds of

approximately \$76.5 million. In addition, on the same date, a total of 160,000 Flow-Through Shares, 210,000 Common Shares and 370,000 Longer Term Warrants were issued to certain directors of the Corporation pursuant to a private placement. The Flow-Through Shares and Common Shares were issued at the same prices as were paid pursuant to the exercise of the Short Term Warrants. The private placement was undertaken to permit interested directors to acquire shares in the Corporation. The private placement resulted in additional consideration to the Corporation of approximately \$2.05 million.

From February 17, 2007 to September 30, 2007, 95 Longer Term Warrants were exercised into Common Shares. The remaining 14,533,270 Longer Term Warrants expired unexercised on September 30, 2007.

On March 5, 2007, the Corporation announced that the first well drilled during the 2006/07 winter drilling program, Kumak I-25, did not encounter commercial quantities of hydrocarbons and was suspended.

On March 28, 2007, the Corporation announced that the second well drilled during the 2006/07 winter drilling program, Unipkat M-45, did not encounter any hydrocarbons and was abandoned.

On May 11, 2007, the Corporation was the successful bidder for certain lands comprising 63,312 hectares located in the central Mackenzie Valley, Colville Lake-Sahtu region. The Corporation was issued an Exploration Licence ("EL 442") respecting these lands. The work commitment associated with this licence is \$8.26 million, which is approximately the cost of one well, and must be completed by 2011, or 2012 if a \$1 million non-refundable drilling deposit is submitted. The Corporation has posted a letter of credit for \$2.1 million as security for the drilling commitment.

On May 30, 2007, the Corporation completed a public offering of 42,716,193 Common Shares at \$3.10 per share and 11,991,957 Flow-Through Shares at \$3.85 per share, for aggregate gross proceeds of approximately \$178.6 million. The proceeds were utilized for the purchase of the Umiak Assets, as described under "Acquisitions" below and for general corporate purposes.

On August 3, 2007, the Corporation completed a public offering of 33,000,000 Common Shares at \$2.75 per share and 6,000,000 Flow-Through Shares at \$3.45 per share, for total gross proceeds of approximately \$111.5 million. The proceeds were utilized to fund the 2007/08 winter drilling and seismic programs and for general corporate purposes.

On February 28, 2008, the Corporation announced that the first well drilled during the 2007/08 winter drilling program, Atik P-19, did not encounter commercial quantities of hydrocarbons and was abandoned.

On March 5, 2008, the Corporation announced that the second well drilled during the 2007/08 winter drilling program, Aput C-43, did not encounter commercial quantities of hydrocarbons. Aput C-43 was cased and suspended for evaluation for use as a drill cutting injection facility.

On April 7, 2008, the Corporation announced that the third well drilled during the 2007/08 winter drilling program, Langley E-07, had successfully encountered hydrocarbons and that a Significant Discovery License would be applied for. SDL 137 was issued in 2009.

On June 9, 2008, the Corporation was the successful bidder, along with its partners, for two parcels of land in the Northwest Territories. The Corporation and Devon ARL Corporation each acquired a 50% interest in EL 454, consisting of approximately 82,100 hectares in the central Mackenzie Valley, for a gross work commitment of \$5,487,626. In addition, the Corporation and ConocoPhillips Canada Resources Corp. on a 60/40 ownership basis, acquired EL 450, consisting of approximately 41,323 hectares in the Mackenzie Delta, for a gross work commitment of \$1,754,636. The net work commitment of the Corporation for these two parcels is \$3,796,595. The Corporation has posted letters of credit totalling \$949,149 as security for the work commitments.

On July 15, 2008, the Corporation completed a public offering of 82,000,000 Common Shares at \$0.55 per share and 52,250,000 Flow-Through Shares at \$0.67 per share, for total gross proceeds of approximately \$80.1 million. The proceeds were utilized to fund the 2008/09 winter drilling programs and for general corporate purposes.

On January 20, 2009, the Corporation announced that the first well drilled during the 2008/09 winter drilling program, Ellice J-27, was a successful natural gas well and that the Corporation intended to apply for an SDL based on the results of the well. SDL 146 was issued in 2009.

On February 18, 2009, the Corporation announced that the second well drilled during the 2008/09 winter drilling program, North Ellice J-17, encountered poor quality reservoir sections and no hydrocarbons were present.

On March 23, 2009, the Corporation announced that the third well drilled during the 2008/09 winter drilling program, Ellice A-25, did not encounter commercial quantities of hydrocarbons and the well was abandoned.

On May 5, 2009, the Corporation announced that the MDFI Agreement had been restructured. As a result of the Restructured MDFI Agreement, the Corporation, among other things, will not be required to drill the final three wells or complete the additional seismic data acquisition required under the MDFI Agreement until after DTC. The Corporation will nevertheless immediately earn the maximum interest available to it under the MDFI Agreement, consisting of a 50% interest in the Farmin Properties and the Previous Discoveries. Under the Restructured MDFI Agreement, the Corporation also acquired a 100% interest in the Inuvik Concession Blocks and will be required to fund 100% of a \$10 million penalty payment, due on July 31, 2010, related to these lands irrespective of whether the Inuvik Concession Blocks are extended.

On May 11, 2009, the shareholders of the Corporation approved an amendment to the articles of the Corporation to create a new class of shares designated as Non-Voting Common Shares. The purpose for creating the Non-Voting Common Shares was to increase the flexibility of the Corporation to pursue all financing alternatives in the future, including with respect to its largest shareholders. On March 3, 2010, the Corporation formally amended its articles to reflect the Non-Voting Common Shares. No Non-Voting Common Shares have been issued by the Corporation as of the date of this Annual Information Form.

On October 21, 2009, the Corporation completed a non-brokered private placement of 19,633,333 Common Shares at \$0.125 per share and 6,666,667 Flow-Through Shares at \$0.15 per share, for total gross proceeds of approximately \$3.5 million. The proceeds are to be utilized to fund \$1,000,000 of seismic expenditures during the 2009/10 winter season and for general corporate purposes.

On March 15, 2010, the Corporation announced a non-brokered private placement to certain insiders for 25,000,000 Common Shares at \$0.20 per share, for gross proceeds of \$5.0 million. The private placement is expected to close by April 29, 2010 and is subject to TSX approval. The proceeds will be utilized by the Corporation for general corporate purposes.

As at the date hereof, Paramount beneficially owns, or controls or directs, directly or indirectly, 43,833,636 Common Shares (representing approximately 15.1% of the issued and outstanding Common Shares) and provides services to the Corporation pursuant to the New Services Agreement. During 2007, Paramount was considered to be a promoter of the Corporation in that it formed the Corporation to implement the Arrangement resulting in the Corporation acquiring the Spinout Assets and the Ancillary Asset and provided administrative, operating and other services under the Services Agreement during such period.

Acquisitions

On January 12, 2007, the Corporation acquired the Spinout Assets and the Ancillary Asset as a result of the Arrangement. A description of the Spinout Assets is included in the section "Oil and Natural Gas Properties" and for the Ancillary Asset, including the oil and natural gas reserves attributable thereto, in the section "Oil and Gas Reserves Data". For further details concerning the Arrangement, see the information circular and proxy statement of Paramount dated December 8, 2006, which is available on SEDAR at www.sedar.com under Paramount's profile. On May 8, 2007, the Corporation filed a Revised Business Acquisition Report on SEDAR at www.sedar.com in respect of the conveyance by Paramount of the Spinout Assets and the Ancillary Asset.

On May 30, 2007, the Corporation acquired the Umiak Assets from EnCana Corporation for an aggregate cash purchase price of approximately \$171 million, pursuant to the Umiak Acquisition Agreement. A description of the Umiak Assets is included in the section “Oil and Natural Gas Properties”. On July 23, 2007, the Corporation filed a Business Acquisition Report on SEDAR at www.sedar.com in respect of the Acquisition.

Business Strategy

The principal business of the Corporation is to acquire, develop, exploit and produce oil and natural gas in Northern Canada. The Corporation is considered to be a development stage enterprise, as it has yet to generate revenue from its planned principal operations. Similar to other development stage enterprises, the exploration and development of the Corporation’s assets are dependent upon the ability of the Corporation to obtain necessary financing for its planned exploration and development activities and to discover, develop, transport and market economically recoverable quantities of oil and natural gas.

Exploration of the Northwest Territories

Significant quantities of oil and natural gas have been discovered in the Mackenzie Delta and the central Mackenzie Valley regions of the Northwest Territories since exploration began by others in these areas. To date, energy infrastructure, specifically in the form of pipelines to transport natural gas, has not yet reached regions north of the Cameron Hills area of the southern Northwest Territories. Pipelines to transport oil and other liquid hydrocarbons have not yet reached north of Norman Wells in the central Mackenzie Valley. Until a natural gas pipeline is built from the Mackenzie Valley to connect to the Alberta or British Columbia pipeline systems, there is no commercial method to move natural gas which the Corporation, or any other entity, may discover to markets. In addition, a liquids line is required north of Norman Wells to move liquid hydrocarbons discovered north of that area to markets. As a result, it is unlikely that the Corporation will generate any revenue from the production of hydrocarbons until a gas pipeline is built connecting the Mackenzie Delta or the central Mackenzie Valley or if the Corporation discovers liquid hydrocarbons in the Norman Wells area. See “Risk Factors – Mackenzie Valley Pipeline and Securing Transportation Arrangements.” The Corporation currently expects that until such time as the proposed Mackenzie Valley pipeline project receives the necessary regulatory approvals and parties (or a party) are committed to the construction of such project, it will fund its operations through equity financings. The Corporation presently anticipates funding its expenditures thereafter through a combination of debt and equity financings. See “Risk Factors – Future Financing”.

The Corporation believes that the lack of transportation capacity from the central Mackenzie Valley and the Mackenzie Delta provides it with an opportunity to acquire interests in land and discovered hydrocarbons that would not be available to it on reasonable terms, were a pipeline or other means of transportation of oil and natural gas available.

The Corporation’s business strategy is to accumulate interests in hydrocarbons in the central Mackenzie Valley and Mackenzie Delta. These interests may include a combination of direct interests in land, interests in existing discoveries, and farm-ins on land currently owned or controlled by others. In the case of undrilled land which the Corporation believes to be prospective, the Corporation will drill for hydrocarbons and attempt to discover hydrocarbons that could be developed to ship once a pipeline is built. In the case of the acquisition of previous discoveries, the Corporation will develop those hydrocarbons to transport through such infrastructure upon construction. The Corporation’s business objective is to acquire oil and natural gas at a lower cost today than would be possible if a pipeline existed, and to thereby ultimately achieve returns for MGM Energy Shareholders. For a description of the Corporation’s business, see “Oil and Natural Gas Properties”.

Personnel

As at December 31, 2009, the Corporation had 16 employees. In addition, the Corporation has retained several consultants, including many on a seasonal basis, and has contracted with Paramount for the provision of certain services, being mainly human resources, regulatory affairs and land administration, pursuant to the New Services Agreement. The New Services Agreement is in effect until terminated by either party on six months prior written notice. It is the intent of both parties to terminate the New Services Agreement at some point in the future; however, it will be retained for so long as it is mutually beneficial.

Competition

Companies operating in the petroleum industry must manage risks which are beyond the direct control of company personnel. Among these risks are those associated with exploration, transportation infrastructure, environmental damage, fluctuating commodity prices, foreign exchange rates and interest rates.

The Corporation will, from time to time, compete for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies, numerous independent oil and natural gas companies and trusts, and individual producers and operators.

The Corporation will enhance its competitive position by focusing on the Arctic regions of Canada, and will acquire and develop Arctic expertise to reduce some of the risks associated with the exploration, production and marketing of oil and natural gas. See "Risk Factors".

Trends

Activity levels in the Northwest Territories are generally a function of the energy industry's view of the progress towards the construction of a Mackenzie Valley pipeline. There have been a number of occasions since the 1970s where there appeared to be progress toward construction of a pipeline, and equally times when the pipeline appeared to be a distant possibility.

Currently, although more progress has been made toward the construction of a northern pipeline than at any other time, there remains doubt as to the certainty and timing of the Mackenzie Valley pipeline. On March 12, 2007, Imperial Oil Resources Ventures Limited, on behalf of the proponents of the Mackenzie Valley pipeline project (collectively, the "**Pipeline Proponents**"), announced a new, substantially higher cost estimate for the pipeline. In addition, it announced a new project schedule that did not call for a decision to construct the pipeline before 2009 nor pipeline start-up before 2014. In December 2007, the Pipeline Proponents submitted a proposal, on a confidential basis, to the Government of Canada. On January 19, 2009, the Government of Canada announced that it had made a financial offer to the project proponents to support the Mackenzie Valley pipeline, which offer includes a contribution to infrastructure and pre-construction costs. The Pipeline Proponents have publicly announced that they remain committed to the project and are continuing discussions with the Government of Canada, although no agreement had been reached on fiscal terms as of the date of this Annual Information Form. In March 2010, the Proponents filed a revised schedule for the pipeline with the National Energy Board which forecasted a decision to construct the pipeline being made no earlier than 2013 and a pipeline start-up no earlier than 2018. The National Energy Board and the Joint Review Panel concluded their hearings in late 2007. The Joint Review Panel published its report on December 30, 2009. The report endorsed the construction of the Mackenzie Valley pipeline as an opportunity to build a sustainable future in the Mackenzie Valley and Mackenzie Delta regions of Canada. The Joint Review Panel published 176 recommendations directed variously to the Pipeline Proponents, governments and regulatory agencies. Comments on the recommendations were submitted by the Pipeline Proponents of the pipeline and other interested parties to the National Energy Board and to the Government of Canada in February 2010. Final arguments on the National Energy Board hearing is scheduled to occur in April 2010 with the National Energy Board expected to issue its final decision on the application by the end of September 2010. The response of the Corporation to the recommendations of the Joint Review Panel can be found on the National Energy Board's website (www.neb.gc.ca). See "Risk Factors – Mackenzie Valley Pipeline and Securing Transportation Arrangements".

Seasonal Factors

Oil and natural gas development activities, including seismic and drilling programs in the central Mackenzie Valley and Mackenzie Delta are restricted to those months of the year when the ground is frozen. Seasonal weather variations, including freeze-up and break-up, will affect access.

Reorganizations

On January 12, 2007, the Corporation completed the Arrangement. For further details, see “General Development of the Business - History”.

OIL AND NATURAL GAS PROPERTIES

Description of Oil and Natural Gas Properties

The following is a description of the principal oil and natural gas properties of the Corporation. Reserve amounts are stated, before deduction of royalties as at December 31, 2009, based on forecast cost and price assumptions, as set forth in the McDaniel Report. Unless otherwise specified, all references to gross and net acres and well count information are as at December 31, 2009. See “Oil and Gas Reserves Data”. Resource amounts are stated before deduction of royalties as at the dates indicated and are based on internal estimates prepared by a Qualified Reserves Evaluator and/or audited by a Qualified Reserves Auditor. The estimates presented are in accordance with the definitions and guidelines in the COGE Handbook and NI 51-101.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the statistical effects of aggregation.

The Corporation is a Calgary-based oil and gas company with a natural gas focus. The key areas of focus for the Corporation include the Mackenzie Delta and the central Mackenzie Valley in the Northwest Territories.

The map of the Northwest Territories below depicts the Mackenzie Delta area and the Sahtu/Colville Lake area in the central Mackenzie Valley.



The Mackenzie Delta

Overview of the Area

The Mackenzie Delta lies at the end of the Mackenzie River where it enters the Beaufort Sea, approximately 2,200 kilometres northwest of Calgary, Alberta. The Mackenzie Delta has been the focus of natural gas exploration since the 1960s. Several major discoveries have been made in the Mackenzie Delta during that time, with 35 onshore Significant Discovery Licenses awarded to date. Other than one field which provides natural gas to the town of Inuvik, there is currently no commercial oil or natural gas production in the Mackenzie Delta, as there is no pipeline or gathering system to transport production to southern markets. See “Oil and Natural Gas Properties — Proposed Mackenzie Valley Pipeline” below.

Geology

The stratigraphic column in the Mackenzie Delta can be divided into the following four major tectono-stratigraphic assemblages (based upon drilling to date, surface outcrop mapping of adjacent areas and analysis of geophysical data): Inuvikian Assemblage comprising Proterozoic (non-prospective) strata; Franklinian Assemblage comprising Cambrian to Devonian strata; Ellesmerian Assemblage comprising Mississippian to Lower Cretaceous (Hauterivian) strata; and Brookian Assemblage comprising Lower Cretaceous (Hauterivian) to Holocene strata.

The Brookian Assemblage, in particular the Kugmallit, Taglu, and Aklak sequences, has been the main focus of exploration in the Mackenzie Delta. The Brookian Assemblage can be divided into three main petroleum systems: the Jurassic and Early Cretaceous system; the Early Tertiary (Reindeer) system; and the Tertiary Kugmallit system. In the Mackenzie Delta region, this assemblage is 12 to 16 kilometres thick.

The Jurassic and Early Cretaceous petroleum system includes strata from the Bug Creek Group to the Kamik formation. Overlying the Jurassic Bug Creek Group strata are sediments of the Husky formation. These deep water shales are the main source rocks for this petroleum system. They transition into shallow marine sandstones of the Martin Creek Formation. The Kamik formation is the main gas bearing horizon for the Parsons Lake field operated by ConocoPhillips.

The Early Tertiary (Reindeer) petroleum system includes strata from the Upper Cretaceous Boundary Creek and Smoking Hills formations through to the Taglu sequence of the Reindeer formation. The Aklak and Taglu deltaic sequences are the main reservoir intervals within this system and are the main gas bearing horizons for Imperial Oil's Taglu, Shell Canada's Niglingak and the Corporation's Umiak fields. Other probable source rocks for this system include the shales within the Late Cretaceous to Early Tertiary, Paleocene, Fish River sequence, and the shales within the Eocene Taglu and Richards sequences.

The Tertiary Kugmallit petroleum system includes strata from the Kugmallit formation through to the Iperk formation. Reservoirs in this system include sands within the Kugmallit formation and minor sands within the Akpak formation. Source rocks are the shales within the Oligocene Kugmallit sequence and Miocene Akpak sequence.

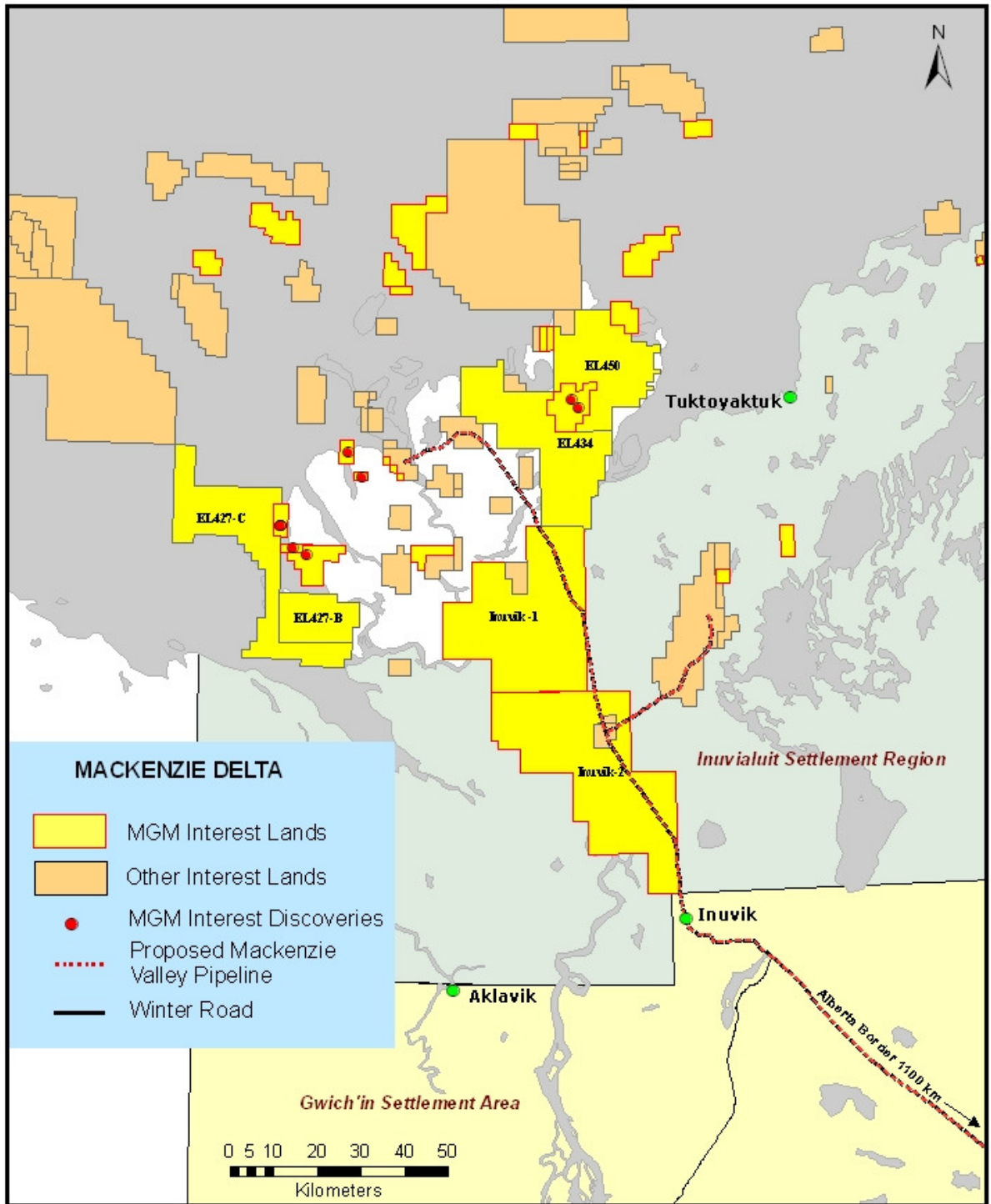
Due to the Franklinian and Ellesmerian assemblages being very deep over much of the Mackenzie Delta, they have not been the focus of exploration efforts in the Mackenzie Delta to date. These stratal groups are, however, considered prospective for hydrocarbons where they are relatively close to the surface.

Resource Potential of the Mackenzie Delta Region

The Mackenzie Evaluation estimates that, in the onshore and shallow water portion of the Mackenzie Delta (which consists of approximately 2.2 million hectares), there is 15.4 Tcf of undiscovered original gas in place (best estimate). Undiscovered original gas in place is gas estimated on a given date to be contained in accumulations yet to be discovered. A best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level. There is no certainty that any portion of the natural gas will be discovered. If discovered, there can be no certainty that it will be commercially viable to produce any portion of the discovery. There is no certainty that a pipeline will be built to transport discovered hydrocarbons.

Map of MGM Energy Assets in the Mackenzie Delta Region

The map below depicts the properties and discoveries in which the Corporation has an interest plus lands held by other industry participants in the area and the proposed route of the Mackenzie Valley pipeline.



The Farmin Properties

The Farmin Properties represent the lands and discoveries that the Corporation acquired pursuant to the MDFI Agreement, which was restructured in May 2009. As at December 31, 2009, these assets are comprised of:

- EL 427B and EL 427C
- Inuvik Concession Blocks 1 and 2
- Langley E-07 discovery (SDL 137)
- Ellice J-27 (Qavvik) discovery (SDL 146)
- Previous Discoveries at Olivier H-01, Langley K-30 and Ellice I-48 (SDLs 132/133, SDLs 134/135 and SDL 136, respectively)

The Corporation owns 50% of EL 427B and 427C. EL 427B covers 18,900 gross hectares (9,450 net hectares) and EL 427C covers 56,100 gross hectares (28,050 net hectares). EL 427B expires in May 2011 and EL 427C expires in June 2013. Continuation of the exploration licences EL 427B and EL 427C requires annual rental payments due in May and June, respectively, of each year. The Corporation has not yet determined whether it will make the annual rental payments in 2010 and continue the exploration licence or relinquish the lands.

The Corporation owns a 100% interest in Inuvik Concession Blocks 1 and 2. The Inuvik Concession Block 1 lands cover approximately 90,500 gross and net hectares and the Inuvik Concession Block 2 lands cover approximately 100,400 gross and net hectares. The leases respecting each block have a term of 10 years expiring in July 31, 2010. The term of each of these leases can be extended for up to 10 years under two extensions at which time a portion of the leases are relinquished back to the Inuvialuit Regional Corporation. These lease extensions, which could be made in July 2010 for five years and July 2015 for a further five years, require a cash payment of \$250,000 for each five year extension on each Inuvik Concession Block. In addition, if a block is extended for the first renewal term, one well must be drilled on that block by July 2015 or a penalty of \$5 million must be paid. If a block is extended for the second renewal term, a further well must be drilled on that block by July 2020 or a penalty of \$5 million must be paid. The Corporation has not yet determined whether it will extend one or both blocks in July 2010. Irrespective of whether Inuvik Concession Blocks 1 or 2 are extended, the Corporation must pay a \$10 million penalty due on July 31, 2010. The Corporation has funds set aside in a separate account to fund this payment penalty when it is due.

Langley E-07 was drilled in EL 394 (which has since expired) during the 2007/08 winter drilling season and SDL 137 was granted in 2009. Ellice J-27 was drilled in EL 427A (which has since expired) during the 2008/09 winter drilling season and SDL 146 was granted in 2009. The Previous Discoveries were drilled by Chevron Canada Limited and BP Canada Energy Company between 2003 and 2005. The Corporation owns 50% of these discoveries and an estimate of the Resources at Ellice J-27 and the Previous Discoveries are provided below.

Restructured MDFI Agreement

In May, 2009, the Corporation, Chevron Canada Limited, BP Canada Energy Company Limited and BP Canada Energy Resources Company restructured the MDFI Agreement. As a result of the Restructured MDFI Agreement, the Corporation is not required to drill the final three wells or to complete the remaining seismic data acquisition required under the MDFI Agreement until after DTC. The Corporation nevertheless immediately earned the interests available to it under the MDFI Agreement, consisting of a 50% interest in the Farmin Properties and the Previous Discoveries. In addition, the Corporation increased its interest in the Inuvik Concession Blocks 1 and 2 from 50% to 100%.

The following table compares the principal obligations of the Corporation under the MDFI Agreement to those under the Restructured MDFI Agreement:

MDFI Agreement

- Drill final three wells by April, 2010 to earn 50% of Previous Discoveries and Farmin Properties
- Spend the remainder of the seismic commitment (approximately \$26 million) on seismic acquisition by August 2012 or, if not spent, pay 50% of the unspent commitment as a cash penalty
- Earn 50% interest in Inuvik Concession Blocks 1 and 2 and make one-half of any penalty payments due to the Inuvialuit Land Corporation if no wells are drilled on those lands by August, 2010 (maximum payment by the Corporation of \$5 million)

Restructured MDFI Agreement

- Drill three wells within three winter drilling seasons after DTC
- Spend the remainder of the seismic commitment (approximately \$26 million) on development costs after DTC occurs
- Acquire 100% interest in Inuvik Concession Blocks 1 and 2 and make all penalty payments due to the Inuvialuit Land Corporation if no wells are drilled on those lands by August, 2010 (maximum payment by the Corporation of \$10 million)

In addition:

- the Corporation becomes the operator of the joint venture, effective immediately;
- the three wells to be drilled after DTC may consist of either appraisal wells or development wells, at the option of the Corporation; and
- the Corporation will fund all of Chevron Canada and BP Canada Energy Company's annual costs to monitor existing wells in the Mackenzie Delta until DTC. These costs are estimated to be approximately \$60,000 per year.

Exploration and Development to 2008 on the Farmin Properties

Three wells (Langley K-30, Olivier H-01 and Ellice I-48) were drilled in 2003 to 2005 on the Farmin Properties by the farmers under the MDFI Agreement. All wells were cased and tested. These wells are part of the Previous Discoveries. Two wells were drilled in the 2006/07 winter drilling season on EL 394 lands (which have since expired) and were called Kumak I-25 and Unipkat M-45. The Kumak I-25 well was cased and suspended without further testing and the Unipkat M-45 well was abandoned. Three wells were drilled during the 2007/08 winter drilling season and were called Atik P-19, Aput C-43 and Langley E-07. Neither of the Atik P-19 or the Aput C-43 wells encountered commercial amounts of hydrocarbons and are considered dry. The Atik P-19 well was abandoned. The Aput C-43 well was cased and suspended for evaluation for use as a possible drill cutting injection facility. The Langley E-07 well encountered natural gas hydrocarbons and there was sufficient natural gas to apply for a Significant Discovery License. SDL 137 was issued in 2009. The first well drilled during the 2008/09 winter drilling program, Ellice J-27, was a successful natural gas well (see "Ellice J-27 Resource Estimate" below). The second well, North Ellice J-17, encountered poor quality reservoir sections and no hydrocarbons were present. The third well, Ellice A-25, did not encounter commercial quantities of hydrocarbons and was abandoned.

Exploration Program for 2009/10 and 2010/11 Winter Drilling Seasons

There will be no exploration program carried out by the Corporation on these properties during the 2009/10 winter season. The Corporation has not yet determined whether it will conduct any exploration activity on these properties during the 2010/11 winter season.

Ellice J-27 (Qavvik) Resource Estimate

An evaluation of the potential Resources for the Ellice J-27 well was completed internally by a Qualified Reserves Evaluator and audited by a Qualified Reserves Auditor dated and effective as at March 16, 2009. The table below summarizes the net estimated Resources attributable to the Ellice J-27 well. Estimates are shown before the deduction of royalties. The estimates presented are in accordance with the definitions and guidelines in the COGE Handbook and NI 51-101.

Resource Estimate of Sales Gas Resources⁽³⁾ – Net to MGM Energy (Bcf)			
	<u>Low</u>	<u>Best</u>	<u>High</u>
Contingent Resources ⁽¹⁾			
Aklak Zone	91	142	221
Taglu Zone	7	13	24
Prospective Resources ⁽²⁾			
Aklak Lower Zone	20	41	84
Mid Ellice Zone	4	11	28

The mean⁽³⁾ estimate of net Contingent Resources and net Prospective Resources is 164 Bcf and 61 Bcf, respectively.

Notes:

- (1) Contingent Resources are those quantities of gas and oil estimated to be potentially recoverable from known accumulations but are classified as a Contingent Resource rather than a reserve due to, in the case of these Resources: lack of pipeline infrastructure, making the project uneconomic on a stand alone basis; potential regulatory issues with respect to the construction of the Mackenzie Valley pipeline and facility infrastructure; and lack of demonstrated capability to bring any volumes that may be produced to market within a specific time frame. The estimate has not been adjusted for risk based on the chance of development.
- (2) Prospective Resources are those quantities of oil and gas estimated, as of a given date, to be potentially recoverable from undiscovered or untested accumulations. For the Ellice J-27 Prospective Resource estimate, the Prospective Resources are in zones that were drilled but not production tested, therefore, they are considered prospective because the existence of gas has not yet been demonstrated by production testing. The Prospective Resource estimate has not been adjusted for risk based on the chance of discovery or the chance of development.
- (3) A low estimate is a conservative estimate of the quantity of sales gas that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₉₀ confidence level; a best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level and a high estimate is an optimistic estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₁₀ confidence level. A mean estimate is the average volume of sales gas from the probabilistic assessment that will be recovered from the accumulation. Statistically, Contingent Resources and Prospective Resources from different zones can be added for the mean estimate, but not for the low, best or high estimates. Marketable gas estimates exclude gas used for fuel.

There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources, even if the Mackenzie Valley pipeline is constructed. There is no certainty that any portion of the Prospective Resources will be discovered or, if discovered, it will be commercially viable to produce any portion of the discovery, even if the Mackenzie Valley pipeline is constructed. There is no certainty that a pipeline will be built to transport the hydrocarbons from these discoveries.

The accuracy of Resources estimates is in part a function of the quality and quantity of available data and of engineering and geological interpretation and judgement. These volumes are classified as a Contingent Resource or a Prospective Resource rather than a reserve primarily due to a lack of marketing infrastructure. Other factors in the classification as a Contingent Resource or a Prospective Resource include a requirement for more delineation wells, detailed design estimates and near term development plans. The size of the estimate could be positively impacted, potentially in a material amount, if additional delineation wells determine that the aerial extent, reservoir quality and/or the thickness of the reservoir is larger than what is currently estimated based on the interpretation of 3D seismic and well control. The size of the estimate could be negatively impacted, potentially in a material amount, if additional delineation wells determine that the aerial extent, reservoir quality and/or the thickness of the reservoir are less than what is currently estimated based on the interpretation of the 3D seismic and well control.

The Previous Discoveries

An evaluation of the potential Resources for the Previous Discoveries has been completed internally by the Corporation by a Qualified Reserves Evaluator or audited by a Qualified Reserves Auditor effective as at December 31, 2007. The table below summarizes the net estimated Resources attributable to the Previous Discoveries. Estimates are shown before the deduction of royalties. The estimates presented are in accordance with the definitions and guidelines in the COGE Handbook and NI 51-101.

Resource Estimate of Sales Gas Resources⁽³⁾ – Net to MGM Energy (Bcf)			
	<u>Low</u>	<u>Best</u>	<u>High</u>
Contingent Resources ⁽¹⁾	118	142	173
Prospective Resources ⁽²⁾	25	63	164

The mean⁽³⁾ estimate of net Contingent Resources and net Prospective Resources is 144 Bcf and 85 Bcf, respectively.

Notes:

- (1) Contingent Resources are those quantities of gas and oil estimated to be potentially recoverable from known accumulations but are classified as a Contingent Resource rather than a reserve due to, in the case of these Resources: lack of pipeline infrastructure, making the project uneconomic on a stand alone basis; potential regulatory issues with respect to the construction of the Mackenzie Valley pipeline and facility infrastructure; and lack of demonstrated capability to bring any volumes that may be produced to market within a specific time frame. The estimate has not been adjusted for risk based on the chance of development.
- (2) Prospective Resources are those quantities of oil and gas estimated, as of a given date, to be potentially recoverable from undiscovered or untested accumulations by application of future development projects. For the Previous Discoveries Prospective Resource estimate, the Prospective Resources are in undiscovered accumulations that have not been adjusted for risk based on the chance of discovery or the chance of development.
- (3) A low estimate is a conservative estimate of the quantity of sales gas that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₉₀ confidence level; a best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level and a high estimate is an optimistic estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₁₀ confidence level. A mean estimate is the average volume of sales gas from the probabilistic assessment that will be recovered from the accumulation. Marketable gas estimates exclude gas used for fuel.

There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources, even if the Mackenzie Valley pipeline is constructed. There is no certainty that any portion of the Prospective Resources will be discovered or, if discovered, it will be commercially viable to produce any portion of the discovery, even if the Mackenzie Valley pipeline is constructed. There is no certainty that a pipeline will be built to transport the hydrocarbons from these discoveries.

The accuracy of Resources estimates is in part a function of the quality and quantity of available data and of engineering and geological interpretation and judgement. The Corporation earned an interest in the Previous Discoveries in May 2009. While the Corporation believes that it has had access to all pertinent information available to estimate the size of the discoveries, there may be additional information that the Corporation is not aware of that could positively or negatively impact the estimate, potentially in a material amount. These volumes are classified as a Contingent Resource or a Prospective Resource rather than a reserve primarily due to a lack of marketing infrastructure. Other factors in the classification as a Contingent Resource or a Prospective Resource include a requirement for more delineation wells, detailed design estimates and development plans. The size of the estimate could be positively or negatively impacted, potentially in a material amount, if additional delineation wells determine that the aerial extent, reservoir quality and/or the thickness of the reservoir is larger or less than what is currently estimated based on the interpretation of seismic and well control.

Umiak Properties

The Umiak properties are comprised of the Umiak discovery SDL 131, EL 434 and EL 450. The Corporation owns a 60% working interest in all assets in the Umiak area.

Umiak SDL 131

The Umiak discovery is a combination structural-stratigraphic trap consisting of a three way dip closure against a normal fault augmented by a roughly co-incident regional sand depositional edge and an erosional truncation edge that limits the northern extent of the field. The greater Umiak structure was originally tested by Umiak J-37, a well drilled in 1972. The J-37 well failed to encounter porous sandstone reservoir as it was drilled north of the regional Lower Richards sand depositional edge and the Taglu erosional truncation edge. Following a re-interpretation of the area geology, high quality 3D seismic was acquired which allowed for detailed analysis of the reservoir stratigraphy.

The Umiak discovery well, Umiak N-16, was drilled in 2004. The well encountered multiple hydrocarbon bearing zones in the lowermost reservoirs of middle Eocene Richards Sequence and the uppermost reservoirs of the lower Eocene Taglu Sequence. A delineation well, N-05, was drilled in 2005 and encountered hydrocarbons in the Lower Richards and a thickened Upper Taglu section.

The Umiak SDL 131 occupies an area of approximately 8,500 gross hectares (5,100 net hectares) and is located approximately 15 km to the east of Imperial Oil's Taglu field, one of the anchor fields for the proposed Mackenzie Valley pipeline project. An estimate of the Resources of the Umiak discovery is provided below under "Estimate of Resources of Umiak SDL 131".

EL 434

EL 434 comprises approximately 57,000 gross hectares (34,200 net hectares) and is located in the Mackenzie Delta, immediately to the south and west of the Umiak discovery. The primary term of EL 434 expires in May 2011, and will be extended to May 2015 if a well is drilled during the primary term. The primary term can be extended an additional year, to May 2012, with the payment of a \$1,000,000 extension fee (\$600,000 net to the Corporation), which is refundable if a well is drilled by May 2012. The work commitment associated with the license is approximately \$40.2 million (gross) of which the Corporation's share is approximately \$24 million.

A number of exploration prospects have been identified on EL 434 with similar characteristics to the discovery in SDL 131. Several of these prospects are well defined on the 3-D seismic programs which were shot over this area by the previous operator.

EL 450

EL 450 comprises approximately 41,323 gross hectares (24,794 net hectares) and is located in the Mackenzie Delta, immediately to the north and east of the Umiak discovery. The primary term of EL 450 expires in June 2013, and will be extended to June 2017 if a well is drilled during the primary term. The work commitment associated with the license is approximately \$1.8 million (gross) of which the Corporation's share is approximately \$1.1 million.

Exploration Program for 2009/10 and 2010/11 Winter Drilling Seasons

There will be no exploration program carried out on the Umiak properties during the 2009/10 winter season. The Corporation has not yet determined if there will be any exploration activity on the Umiak properties during the 2010/11 winter season.

Estimate of Resources of Umiak SDL 131

An evaluation of the potential Resources for Umiak SDL 131 has been completed internally by a Qualified Reserves Evaluator and audited by a Qualified Reserves Auditor effective as at December 31, 2007. The table below summarizes the estimated Resources attributable to Umiak SDL 131, net to the Corporation. Estimates are shown

before the deduction of royalties. The estimates presented are in accordance with the definitions and guidelines in the COGE Handbook and NI 51-101.

Resource Estimate of Sales Gas Resources⁽³⁾ – Net to MGM Energy (Bcf)			
	<u>Low</u>	<u>Best</u>	<u>High</u>
Contingent Resources ⁽¹⁾	161	264	472
Prospective Resources ⁽²⁾	14	32	76

The mean⁽³⁾ estimate of net Contingent Resources and net Prospective Resources is 289 Bcf and 39 Bcf, respectively.

Notes:

- (1) Contingent Resources are those quantities of gas and oil estimated to be potentially recoverable from known accumulations but are classified as a Contingent Resource rather than a reserve due to, in the case of these Resources: lack of pipeline infrastructure, making the project uneconomic on a stand alone basis; potential regulatory issues with respect to the construction of the Mackenzie Valley pipeline and facility infrastructure; and lack of demonstrated capability to bring any volumes that may be produced to market within a specific time frame. The estimate has not been adjusted for risk based on the chance of development.
- (2) Prospective Resources are those quantities of oil and gas estimated, as of a given date, to be potentially recoverable from undiscovered or untested accumulations by application of future development projects. For the Umiak discovery Prospective Resource estimate, the Prospective Resources are in undiscovered accumulations that have not been adjusted for risk based on the chance of discovery or the chance of development.
- (3) A low estimate is a conservative estimate of the quantity of sales gas that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₉₀ confidence level; a best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level and a high estimate is an optimistic estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₁₀ confidence level. A mean estimate is the average volume of sales gas from the probabilistic assessment that will be recovered from the accumulation. Marketable gas estimates exclude gas used for fuel.

There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources, even if the Mackenzie Valley pipeline is constructed. There is no certainty that any portion of the Prospective Resources will be discovered or, if discovered, it will be commercially viable to produce any portion of the discoveries, even if the Mackenzie Valley pipeline is constructed. There is no certainty that a pipeline will be built to transport the hydrocarbons from these discoveries.

The accuracy of estimates is in part a function of the quality and quantity of available data and of engineering and geological interpretation and judgement. These volumes are classified as a Contingent Resource or Prospective Resource rather than a reserve primarily due to a lack of marketing infrastructure. Other factors in the classification as a Contingent Resource or a Prospective Resource include a requirement for more delineation wells, detailed design estimates and near term development plans. The size of the estimate could be positively impacted, potentially in a material amount, if additional delineation wells determine that the aerial extent, reservoir quality and/or the thickness of the reservoir is larger than what is currently estimated based on the interpretation of 3D seismic and well control. The size of the estimate could be negatively impacted, potentially in a material amount, if additional delineation wells determine that the aerial extent, reservoir quality and/or the thickness of the reservoir are less than what is currently estimated based on the interpretation of the 3D seismic and well control.

Other Mackenzie Delta Assets

Seismic Data

The Corporation has a working interest in an extensive seismic database, comprising approximately 9,900 kms of 2-D seismic data and approximately 470 km² of 3-D seismic data covering much of the Umiak discovery, EL 434, and extensive regional areas both onshore and offshore of Mackenzie Delta.

Seismic data is critical to successful exploration in the Mackenzie Delta, and the Corporation expects that the extent and quality of the seismic data will be of substantial assistance in its exploration programs in the region. It is estimated by the Corporation that the current cost of shooting equivalent 2-D and 3-D data could exceed \$50,000/km and \$100,000/km², respectively.

Various SDLs

The Acquisition included fractional interests in 14 SDLs located in the Mackenzie Delta, both onshore and offshore. The interests acquired by the Corporation range from 0.62% to 3.89% in the SDLs. No internal estimates of these discoveries have been prepared. Each of the 14 SDLs is operated by Imperial Oil Limited, and there are currently no plans for additional exploration or development on these SDLs. However, the Corporation believes that ownership of these interests may provide a window on energy development throughout the Mackenzie Delta. As well, ownership of these SDLs provides access to much of the seismic data referred to above.

Central Mackenzie Valley

Overview of the Area

The central Mackenzie Valley corridor, Northwest Territories has been the focus of natural gas exploration since the 1970s. A number of major discoveries have been made in and around the Colville Lake region during that time, with seven SDLs awarded to date, including two discoveries (at Nogha and Maunoir) in which the Corporation holds a 50% working interest. There is no commercial natural gas production in the Colville Lake area as currently there is no pipeline or gathering system to transport gas production. The Enbridge Norman Wells oil pipeline terminates at Norman Wells, about 150 kilometres south of Colville Lake. See “Oil and Natural Gas Properties - Proposed Mackenzie Valley Pipeline” below.

Geology

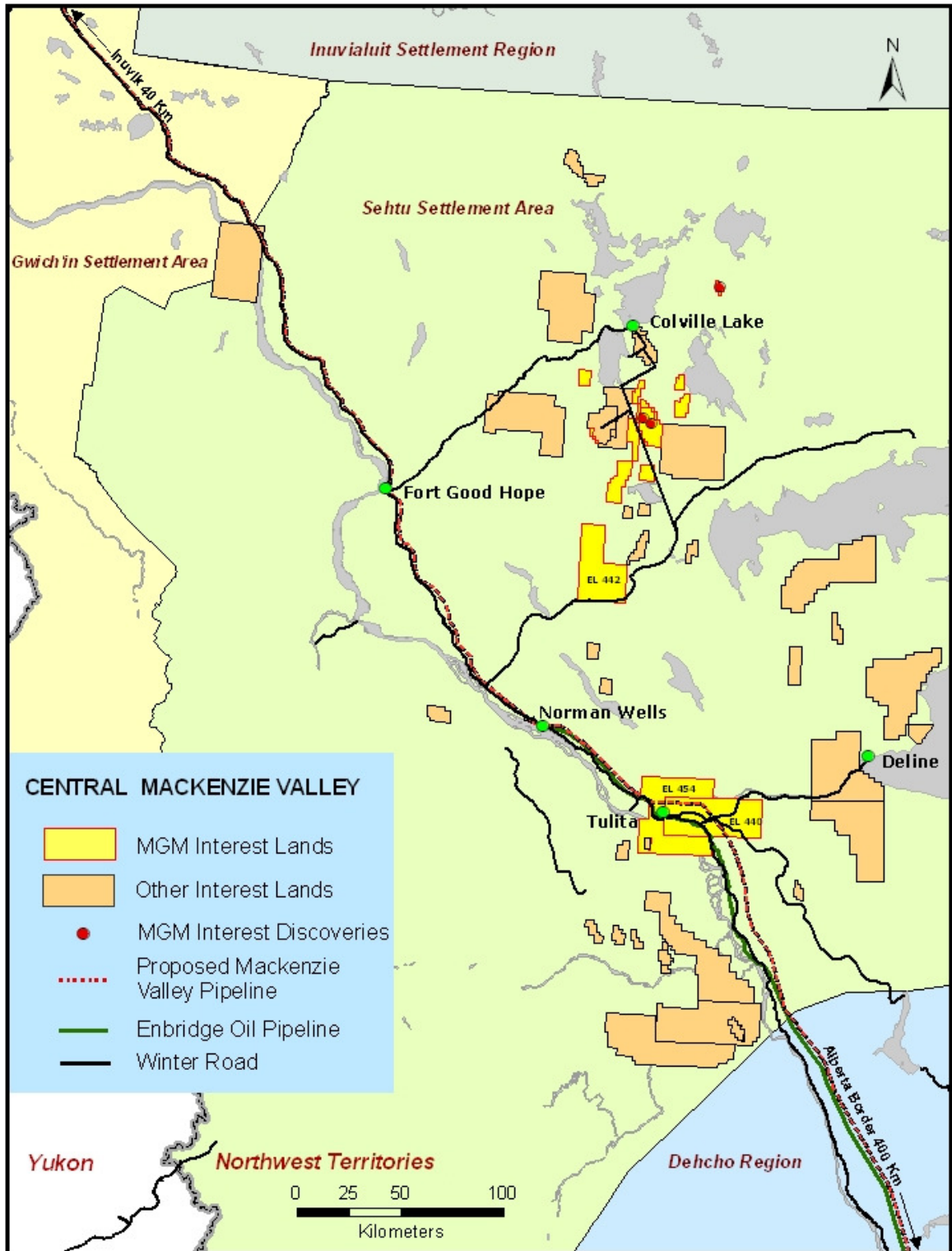
The primary exploration target in the northern Sahtu area of the central Mackenzie Valley near Colville Lake is the Cambrian-aged Mount Clark formation sandstones. Overlying the Mount Clark formation are sandstones, siltstones, shales, thin limestone and dolomite of the Mount Cap formation. The Mount Cap formation ranges in thickness from 70 metres to over 920 metres. Up to 200 metres of evaporitic sediments and variegated shales of the Saline River formation overlie the Mount Cap formation, with the Saline River formation being beneath the late Cambrian to early Ordovician carbonate of the Franklin Mountain formation. The Franklin Mountain formation lies beneath the middle Devonian Bear Rock, Hume and Rampart-Kee Scarp formations and the Cretaceous sand and shales of the Slater River formation.

Resource Potential of Central Mackenzie

The Mackenzie Evaluation estimates that for the Colville Lake Cambrian sandstone, which covers approximately 5.3 million hectares in the Mackenzie Valley, there is 5.7 Tcf of undiscovered original gas in place (best estimate). Undiscovered original gas in place is gas estimated on a given date to be contained in accumulations yet to be discovered. A best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level. There is no certainty that any portion of the natural gas will be discovered. If discovered, there can be no certainty that it will be commercially viable to produce any portion of the discoveries. There is no certainty that a pipeline will be built to transport discovered hydrocarbons.

Map of MGM Energy Assets in the Central Mackenzie Region

The map below depicts the Central Mackenzie Valley properties and discoveries in which the Corporation owns a working interest plus lands held by other industry participants in the area and the proposed route of the Mackenzie Valley pipeline.



Central Mackenzie Properties

As at December 31, 2009, the Central Mackenzie Valley properties cover approximately 292,000 gross hectares (approximately 263,000 net hectares) in the Mackenzie Valley, Northwest Territories. The Central Mackenzie Valley properties are at:

- Nogha (SDLs 141 and 142, and concession agreements);
- Maunoir (SDL 143);
- Kelly Lake (EL 442); and
- Great Bear River (EL 440 and EL 454).

The Nogha and Maunoir properties are held through a 50% joint venture with an industry partner. Kelly Lake EL 442 is wholly-owned by the Corporation. The Great Bear River exploration licences are owned 50% by the Corporation with an industry partner for all zones above the Saline River formation and owned 100% by the Corporation for all zones below the Saline River formation

At Nogha, the concession agreement, M17, regarding lands in the Central Corridor region of the Sahtu settlement area has rolling five year terms, with the first term ending in January 2011. The concession agreement lands cover approximately 59,900 gross hectares (29,950 net hectares). At the end of each term a portion of the lands are relinquished by the lessee, with the magnitude of such portion depending on exploration success and work completed during the term. SDLs 141 and 142 have been granted for the natural gas discovery at Nogha.

At Maunoir, SDL 143 has been granted for an oil discovery made on EL 399.

At Kelly Lake, EL 442 has an initial term which expires in May 2011, subject to extension to May 2015 if certain work is completed. EL 442 covers approximately 63,000 gross and net hectares. Upon expiry, only discovery land defined by a successful exploration well for which an SDL has been applied for or obtained will be retained by the lessee. It has not yet been determined by the Corporation if additional work will be completed on EL 442 prior to the expiry of the initial term.

At Great Bear River, EL 440 has an initial term expiring in May 2011, subject to extension to May 2014 if an exploration well is drilled during the first term. EL 454 has an initial term of four years which expires in June 2012, subject to extension to 2016 if an exploration well is drilled in the first term. Upon expiry, only discovery land defined by a successful exploration well for which a SDL has been applied for or obtained will be retained by the lessee. EL 440 covers approximately 88,000 gross hectares (44,000 net hectares for all zones above the Saline River formation and 88,000 net hectares for all zones below the Saline River formation). EL 454 covers approximately 82,000 gross hectares (41,000 net hectares for all zones above the Saline River formation and 88,000 net hectares for all zones below the Saline River formation).

The Corporation also held two exploration licences, EL 430 in the Nogha area and EL 414 in the Turton area which expired in May and September 2009, respectively, without an SDL being applied for.

Exploration and Development to Date on the Central Mackenzie Properties

Ten wells were drilled by Paramount between 2001 and 2006, six of which have been cased and suspended and four of which have been abandoned.

Exploration and Development Plans for the Central Mackenzie Properties

Several prospects and leads have been identified through both gravity and seismic in the central Mackenzie Valley region. Current mapping indicates good gas potential in the basal Cambrian Sandstones in the immediate area of the Nogha discovery and within the Kelly Lake and Great Bear River areas. The Corporation also believes that the Great Bear River properties are prospective for oil and is participating in a seismic program during the 2009/10 winter season which will cost approximately \$1 million net to the Corporation. There will be no other exploration program carried out on the Central Mackenzie properties during the 2009/10 winter season. The Corporation has not yet determined if there will be any exploration activity during the 2010/11 winter season.

Estimate of Resources of Central Mackenzie Properties

Discoveries were made by Paramount at Nogha and Maunoir, in with the Corporation holds a working interest. The Maunoir C-34 discovery well was production tested at 235 gross bbls/d of oil and SDL 143 has been issued with respect to this discovery. There has been no estimate made by the Corporation of the potential Resources of the Maunoir discovery.

An evaluation of the potential Resources for the Nogha discovery (SDLs 141 and 142) has been completed internally by a Qualified Reserves Evaluator and audited by a Qualified Reserves Auditor effective as at December 31, 2007. The table below summarizes the estimated volumes of Contingent Resources attributable to the Nogha property at Colville Lake, net to the Corporation. Estimates are shown before the deduction of royalties. The estimates presented are in accordance with the definitions and guidelines in the COGE Handbook and NI 51-101.

	<u>Low</u>	<u>Best</u>	<u>High</u>
Contingent Resources ⁽¹⁾	45	92	192

The mean⁽²⁾ estimate of the net Contingent Resources is 106 Bcf.

Notes:

- (1) Contingent Resources are those quantities of gas and oil estimated to be potentially recoverable from known accumulations but are classified as a Contingent Resource rather than a reserve due to, in the case of these Resources: lack of pipeline infrastructure, making the project uneconomic on a stand alone basis; potential regulatory issues with respect to the construction of the Mackenzie Valley Pipeline and facility infrastructure; and lack of demonstrated capability to bring any the volumes that may be produced to market within a specific time frame. The estimate has not been adjusted for risk based on the chance of development.
- (2) A low estimate is a conservative estimate of the quantity of sales gas that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₉₀ confidence level; a best estimate is the best estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₅₀ confidence level; a high estimate is an optimistic estimate of the quantity that will actually be recovered from the accumulation, which under probabilistic methodology reflects a P₁₀ confidence level, and; a mean estimate is the average volume of sales gas from the probabilistic assessment that will be recovered from the accumulation. Sales gas estimates exclude gas used for fuel. In the case of the Nogha discovery, natural gas liquids will be used primarily for fuel, and lease gas used only as requirements dictate.

There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources, even if the Mackenzie Valley pipeline is constructed. There is no certainty that a pipeline will be built to transport the hydrocarbons from these discoveries.

The accuracy of estimates is in part a function of the quality and quantity of available data and of engineering and geological interpretation and judgement. These volumes are classified as a Contingent Resource rather than a reserve primarily due to a lack of marketing infrastructure. Other factors in the classification as a Contingent Resource include a requirement for more delineation wells, detailed design estimates and near term development plans. The size of the estimate could be positively impacted, potentially in a material amount, if additional delineation wells or seismic data determine that the aerial extent, reservoir quality and/or the thickness of the reservoir is larger than estimated based on the interpretation of 2D seismic and well control. The size of the estimate could be negatively impacted, potentially in a material amount, if additional delineation wells or seismic data

determine that the aerial extent, reservoir quality and/or the thickness of the reservoir is not as large as estimated based on the interpretation of current 2D seismic and well control.

Other Central Mackenzie Valley Assets

Seismic Data

The Corporation has a working interest in an extensive seismic database, comprising approximately 2,200 kms of 2-D seismic data covering several different prospective areas.

Seismic data is critical to successful exploration in the Central Mackenzie Valley, and the Corporation expects that the extent and quality of the seismic data will be of substantial assistance in its exploration programs in the region. It is estimated by the Corporation that the current cost of shooting equivalent 2-D seismic in the Central Mackenzie Valley could exceed \$60,000/km.

Contingent and Prospective Resource Estimates

All estimates disclosed in this AIF are provided separately on a per property basis and by type of Resource (i.e. Contingent Resource and Prospective Resource). Accordingly, such estimates have not been aggregated. However, the Corporation may, from time to time, provide a summation or aggregation of the Corporation's mean Contingent Resources and Prospective Resources. It is statistically appropriate to sum Resources at the mean estimate, whereas summation provides an inaccurate estimate if the low, best or high estimates of Resources are summed. The aggregated estimate of Resources (unrisked) may include Prospective Resources that have not been adjusted for risk based on the chance of discovery or the chance of development and Contingent Resources that have not been adjusted for risk based on the chance of development. There is no certainty that any portion of the undiscovered Prospective Resources will be discovered or, if discovered, that it will be commercially viable to produce any portion of the Prospective Resource. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. There is no certainty that a pipeline will be built to transport the hydrocarbons from the discoveries.

Proposed Mackenzie Valley Pipeline

The Mackenzie Valley Pipeline is a proposed 1,200 kilometre pipeline and gathering system to transport natural gas from existing and currently undiscovered natural gas fields in the Mackenzie Delta through the Mackenzie Valley to connect northern onshore gas fields with North American markets.

Imperial Oil Resources Ventures Limited, on behalf of itself and the Pipeline Proponents submitted applications to the NEB for regulatory approvals required for the Mackenzie Valley pipeline as well as applications to the boards, panels and agencies responsible for assessing and regulating energy developments in the Northwest Territories. Applications were submitted beginning in April 2005. Approvals in respect of the required applications are required before fieldwork can begin on the Mackenzie Valley pipeline. Such approvals include permits to develop and operate the pipeline's infrastructure, such as construction camps, access roads, pipeline rights-of-way, storage areas and granular quarries, as well as land and water use permits needed for pipeline construction and operation. The National Energy Board and the Joint Review Panel concluded their hearings in late 2007. The Joint Review Panel issued its report on December 30, 2009. The NEB has published a schedule for the conclusion of its hearings. The NEB will hold final hearings in April 2010 and expects to release its report by September 2010. See "General Development of the Business – Trends" for additional information regarding the Mackenzie Valley Pipeline.

Preliminary plans target construction of the pipeline over four years once all necessary permits, licences and authorizations have been obtained.

The Corporation and Paramount have publicly stated support for the construction of the Mackenzie Valley pipeline and participated in certain of the hearings in respect of the pipeline. The Corporation has adopted the statements and evidence of Paramount in this regard. In October 2007, the Corporation entered into a Capacity Request Agreement ("CRA") with Imperial Oil Resources Ventures Limited, as representative of the owners of the Mackenzie Gas

Gathering System (“**MGS**”) which provides the Corporation with an option to either own a portion of the MGS or commit to ship up to 200 Mmcf/d on the MGS. The MGS will connect to the Mackenzie Valley pipeline at Inuvik. The Corporation will need to construct additional facilities in respect of certain of its properties to utilize the Mackenzie Valley pipeline and related gathering system, if approved and constructed. If the Corporation elects to ship pursuant to the CRA, the Corporation will be required to provide the amount it intends to ship on the MGS when the owners of the MGS make their decision to proceed with the Mackenzie Gas Project. In the event that the Corporation chooses not to ship all or any of the 200 Mmcf/d, the Corporation will incur a penalty of up to a maximum of \$4.8 million.

If the construction of the Mackenzie Valley pipeline and related gathering system is deferred, delayed or not approved, the Corporation will examine its available options to transport its natural gas to market, including the staged construction by the Corporation or the support by the Corporation for the construction by others of alternate pipeline and gathering systems. See “Risk Factors – Mackenzie Valley Pipeline and Securing Transportation Arrangements”.

OIL AND GAS RESERVES DATA

Ancillary Asset

The Ancillary Asset was transferred from Paramount to the Corporation under the Arrangement pursuant to the Ancillary Asset Transfer Agreement on January 12, 2007. The sale price for the Ancillary Asset was \$5 million, which was satisfied by the cancellation of a \$5 million promissory note issued by Paramount to the Corporation pursuant to the Arrangement. Under the Ancillary Asset Transfer Agreement, Paramount has the option to reacquire the Ancillary Asset from the Corporation for the same price, provided that at the time of such acquisition the Corporation has proved developed reserves with a net present value (on a constant price basis) of not less than \$3 million discounted at 20% or would otherwise then meet the TSX's initial listing requirements and provided further that such acquisition would not result in the delisting from the TSX of any of the Corporation's securities or the Corporation being in default of any of the TSX's listing maintenance requirements.

The Ancillary Asset consists of one well in the Cameron Hills area of the southern portion of the Northwest Territories. The Corporation is the operator of the well and has an 88% interest in the well. The well had test production from the Sulphur Point formation at rates of 100 to 150 gross bbls/d in 2003 when the well was drilled with minor amounts of associated gas, but has never produced and is not currently producing. If additional facilities are constructed, production from the well can be tied into an existing pipeline approximately one kilometre away, with production to be sent via such pipeline to a battery at Bistcho Lake approximately 70 kilometres away. It is anticipated that the facilities could be constructed by Paramount and the well could be tied-in in 2012. Actual tie-in date will be determined by Paramount in accordance with good oil and gas field production principles. The future development costs of approximately \$0.7 million will be funded from the Corporation's existing working capital.

The tables below summarize the crude oil, natural gas liquids ("NGL") and natural gas reserves related to the Ancillary Asset of the Corporation and the present worth of future net cash flows associated with such reserves effective as at December 31, 2009, as evaluated by McDaniel in a report dated February 10, 2010 based on forecast prices and costs and have been extracted from the McDaniel Report. The McDaniel Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions set out by the Canadian Securities Administrators in NI 51-101 and the COGE Handbook. The tables summarize the data contained in the McDaniel Report and, as a result, may contain slightly different numbers than the McDaniel Report due to rounding. **All future cash flows are stated prior to provision for indirect costs and lease reclamation costs (other than well abandonment costs associated with existing wells and wells to be drilled in the future that have been assigned reserves) and after deduction of royalties and estimated future capital expenditures.**

It should not be assumed that the present worth of estimated future cash flows shown below is representative of the fair market value of the reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of the Corporation's crude oil, NGL and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and NGL reserves may be greater than or less than the estimates provided herein. In the various reserves related tables included herein, columns may not add due to rounding.

The report of management and directors on oil and gas disclosure and the report on reserves data by McDaniel are attached as Appendices A and B, respectively to this Annual Information Form.

The Ancillary Asset was acquired by the Corporation to ensure that the Corporation met the minimum listing requirements of the TSX. The Corporation has no plans in 2010 to tie in or produce the Ancillary Asset.

Disclosure provided herein in respect of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All of the Corporation's crude oil, NGL and natural gas reserves are located within Canada.

The following table summarizes the reserves evaluated at December 31, 2009 using forecast prices and costs.

**SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2009**

FORECAST PRICES AND COSTS

Reserves Category	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
	Gross⁽¹⁾ (Mbbls)	Net⁽²⁾ (Mbbls)	Gross⁽¹⁾ (Mmcf)	Net⁽²⁾ (Mmcf)	Gross⁽¹⁾ (Mbbls)	Net⁽²⁾ (Mbbls)
PROVED ⁽³⁾						
Proved Developed Producing ⁽⁴⁾	—	—	—	—	—	—
Proved Developed Non-Producing ⁽⁵⁾	74	63	600	508	2	2
Proved Undeveloped ⁽⁶⁾	=	=	=	=	=	=
TOTAL PROVED	74	63	600	508	2	2
TOTAL PROBABLE⁽⁷⁾	<u>25</u>	<u>19</u>	<u>200</u>	<u>154</u>	<u>1</u>	<u>1</u>
TOTAL PROVED PLUS PROBABLE	<u>99</u>	<u>82</u>	<u>800</u>	<u>662</u>	<u>3</u>	<u>3</u>

NET PRESENT VALUE OF FUTURE NET REVENUE BASED ON FORECAST PRICES AND COSTS

Reserves Category	BEFORE AND AFTER DEDUCTING INCOME TAXES⁽⁸⁾ DISCOUNTED AT					UNIT VALUE BEFORE AND AFTER INCOME TAX⁽⁸⁾ DISCOUNTED AT 10%/year⁽⁹⁾ (\$/boe)
	0% (\$000s)	5% (\$000s)	10% (\$000s)	15% (\$000s)	20% (\$000s)	
PROVED ⁽³⁾						
Proved Developed Producing ⁽⁴⁾	—	—	—	—	—	
Proved Developed Non-Producing ⁽⁵⁾	6,046	4,888	4,002	3,316	2,778	26.80
Proved Undeveloped ⁽⁶⁾	=	=	=	=	=	
TOTAL PROVED	6,046	4,888	4,002	3,316	2,778	26.80
TOTAL PROBABLE⁽⁷⁾	<u>2,214</u>	<u>1,556</u>	<u>1,117</u>	<u>817</u>	<u>610</u>	<u>24.66</u>
TOTAL PROVED PLUS PROBABLE	<u>8,260</u>	<u>6,444</u>	<u>5,119</u>	<u>4,133</u>	<u>3,388</u>	<u>26.31</u>

Notes:

- (1) Gross reserves include the working interest reserves before deduction of royalties payable to others.
- (2) Net reserves is gross reserves after deducting royalties payable to others.
- (3) "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (4) "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (5) "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (6) "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production.

- (7) "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (8) The Ancillary Asset is the only asset of the Corporation that is anticipated to produce in the next few years. The Corporation has sufficient tax pools as at December 31, 2009 to shelter all income expected from the Ancillary Asset during its expected productive life.
- (9) Numbers may not add due to rounding.
- (10) The unit values are based on net reserve volumes.

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) as of December 31, 2009

FORECAST PRICES AND COSTS

RESERVES CATEGORY	REVENUE (\$000s)	ROYALTIES (\$000s)	OPERATING COSTS (\$000s)	DEVELOPMENT COSTS (\$000s)	ABANDONMENT AND RECLAMATION COSTS (\$000s)	FUTURE NET REVENUE BEFORE INCOME TAXES (\$000s)	INCOME TAXES (\$000s)	FUTURE NET REVENUE AFTER INCOME TAXES (\$000s)
Proved Reserves	11,378	1,789	2,754	700	89	6,046	-	6,046
Proved Plus Probable Reserves	15,510	2,733	3,725	700	92	8,260	-	8,260

Additional Information Concerning Abandonment and Reclamation Costs

The Corporation estimates well abandonment and reclamation costs area by area taking into consideration the costs associated with remediation, decommissioning, abandonment and reclamation, as well as salvage values to existing equipment. These costs are adjusted to reflect working interests held, and are time discounted in accordance with requirements of NI 51-101. Costs are internal estimates chiefly based on previous experience.

As at December 31, 2009, the Corporation had approximately 12.6 net wells for which abandonment and reclamation costs are expected to be incurred. The Corporation's estimate of abandonment and reclamation costs, net of estimated salvage value, for surface leases and wells, undiscounted and discounted at 10 percent, are \$16.6 million and \$1.5 million, respectively. The expected total abandonment and reclamation costs included in the McDaniel Report for 0.9 net wells under the proved reserves category is \$89,000 undiscounted (\$22,000 discounted at 10%) as the Ancillary Asset is the only asset for which proved reserves are assigned. It is not anticipated that there will be any expenditures for abandonment or reclamation within the next three years .

Reconciliation of Reserves by Principal Product Type Based on Forecast Prices and Costs

From December 31, 2008 to December 31, 2009, there was no change in the gross working interest reserve volumes based on forecast price and cost assumptions.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgment and decision-making on the basis of the available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance become available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions. Factors and assumptions that affect these reserve estimates include, among other things: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data become available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

The evaluated oil and gas properties of the Corporation have no material extraordinary risks or uncertainties beyond those that are inherent in an oil and gas producing company.

Future Development Costs

The table below sets out the development costs deducted in the estimation of the Corporation's future net revenue attributable to proved reserves (using forecast prices and costs) and proved plus probable reserves (using forecast prices and cost only).

	Future Development Costs Utilizing Forecast Prices and Costs (\$ millions)	
	Proved Reserves	Proved Plus Probable Reserves
2010	-	-
2011	-	-
2012	0.7	0.7
2013	-	-
2014	-	-
Total (Undiscounted)	0.7	0.7
Total (NPV at 10%)	0.6	0.6

The Corporation expects that the capital listed above will be funded through available working capital.

Tax Horizon

As at December 31, 2009, the Corporation has estimated tax pools, including losses carried forward, of approximately \$311 million which can be used to shelter income. The Corporation believes that it will not be liable to pay any cash income taxes for several years.

Pricing Assumptions

The forecast reference prices as at December 31, 2009 used in preparing the Corporation's reserves data are provided in the table below and were provided by McDaniel, the Corporation's independent reserve evaluator.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
as of December 31, 2009
FORECAST PRICES AND COSTS

	WTI Cushing Oklahoma \$US/bbl	Edmonton Par Price 40 degrees API \$Cdn/bbl	NATURAL GAS AECO Gas Price (\$Cdn/MMBtu)	Edmonton NGL Mix (\$/bbl)	Inflation (%)	US/CAN Exchange Rate \$US/\$CAN
2010	80.00	83.20	6.05	60.30	2.0	0.950
2011	83.60	87.00	6.75	63.50	2.0	0.950
2012	87.40	91.00	7.15	66.50	2.0	0.950
2013	91.30	95.00	7.45	69.40	2.0	0.950
2014	95.30	99.20	7.80	72.50	2.0	0.950
2015	99.40	103.50	8.15	75.60	2.0	0.950
Thereafter	+2%	+2%	+2%	+2%	2.0	0.950

FUTURE NET REVENUES BY PRODUCTION GROUP AS AT DECEMBER 31, 2009
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP ⁽¹⁾	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$000s)	UNIT VALUE (\$/boe)
Proved Reserves	Light and Medium Crude Oil	4,002	26.80
	Natural Gas	-	-
	Total	4,002	26.80
Proved Plus Probable Reserves	Light and Medium Crude Oil	5,119	26.31
	Natural Gas	-	-
	Total	5,119	26.31

(1) Light and Medium Crude Oil includes solution gas and other by-products. Natural Gas includes by-products but excludes solution gas from oil wells.

Costs Incurred

The following table summarizes expenditures related to the Corporation's activities for the period ended December 31, 2009.

Expenditures (\$000's)	
Property Acquisition Costs (Proved Properties)	-
Property Acquisition Costs (Unproved Properties)	-
Exploration Costs	54,316
Development Costs	-
Total	54,316

Production History, Prices Received and Operating Expenditures

The Corporation had no production of hydrocarbons and did not incur any operating expenses during its most recently completed financial year.

Exploration and Development Activities in 2009

During the winter of 2008/09, the Corporation drilled three wells on the Farmin Properties. The first well, Ellice J-27, was a successful natural gas well. The final two wells, North Ellice J-17 and Ellice A-25, did not find commercial quantities of hydrocarbons. See "Oil and Natural Gas Properties" for a description of the Corporation's exploration and development plans.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and, with respect to pricing and taxation of oil and natural gas, by agreements among the Government of Canada and the Northwest Territories, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in Canada.

Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. Regulatory approvals must be obtained before drilling wells or constructing facilities. Failure to obtain such approvals on a timely basis could result in delays or abandonment of projects and increased costs. Although it is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other Canadian oil and natural gas companies of similar size exploring and operating in the Northwest Territories, these controls and regulations should be considered carefully by those investing in the oil and gas industry. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

Land Tenure & Production Rights Processes

Federal Crown Lands

Crude oil and natural gas located in the Northwest Territories is owned predominantly by the Government of Canada. The federal government grants rights to explore for and produce oil and natural gas pursuant to licences issued for varying terms and on varying conditions as set forth in federal legislation and by the parties themselves. Such conditions may include, but are not limited to, obligations to drill wells or produce petroleum substances.

Oil and natural gas rights in lands owned by the federal government within the Northwest Territories are initially obtained by way of an Exploration Licence. EL's are issued through a bid process and generally incorporate the terms and conditions set out in the bid. EL's may be issued for non-renewable terms of up to and including 9 years, subject to extensions where the drilling of a well is in progress. Where the holder of an EL makes a significant discovery, as determined by the NEB, they may apply for and be issued a "declaration of significant discovery" from the NEB. Upon the issuance of the declaration of significant discovery, the holder of the EL may apply for and be issued a Significant Discovery License which will remain in effect for so long as the declaration of significant discovery continues. The area covered by an SDL may vary in accordance with amendments to the declaration of significant discovery. Both ELs and SDLs provide the holder with the right to explore for and the exclusive right to drill and test for petroleum, the exclusive right to develop the lands in order to produce petroleum and the exclusive

right to obtain a production licence for the lands once a declaration of commercial discovery has been made by the NEB.

Where a declaration of commercial discovery has been made by the NEB, the holder of the EL or SDL may then apply for and shall be issued a production licence (“**PL**”). PLs are issued for a term of 25 years, subject to the continuance of the certificate of commercial discovery, and are automatically extended for such time thereafter as commercial production continues. PLs provide the same rights as ELs and SDLs along with the exclusive right to produce petroleum and title to the petroleum so produced. Where commercial production has not commenced on any portion of the commercial discovery area, an order may be issued requiring production from such portion or else forfeiture of that portion from the commercial discovery area. The area covered by the PL may vary in accordance with amendments to the commercial discovery area.

Concession Agreement Lands

Oil and natural gas located in the Northwest Territories can also be privately owned and rights to explore for and produce such oil and natural gas are granted by leases and concession agreements on such terms and conditions as may be negotiated between the parties themselves.

Pursuant to agreements made between First Nations and the Government of Canada, aboriginal organizations have been granted title to certain lands in the Northwest Territories, in fee simple, including mines and minerals within, upon or under such lands. As such, various Northwest Territories’ lands, which include some lands owned by the Corporation, are now owned by aboriginal organizations.

In order to obtain the right to explore and produce minerals within these lands, corporations enter into oil and gas concession agreements with the owner (or its designated organization) of the lands. In particular, a portion of the Corporation’s assets are subject to concession agreements with aboriginal organizations.

Generally, such concession agreements function similar to oil and gas leases, whereby the lessor, as the legal owner, grants the lessee certain rights to explore for and produce oil and gas, subject to the specific terms of the concession agreement.

Typically, upon entering into the concession agreement, the lessee is granted the right to explore and produce oil and gas from the land, for an initial term, followed by potential renewable terms. All lease terms are subject to various drilling and payment obligations, which if not satisfied by the lessee, may result in, without limitation, the termination of certain rights, the surrendering of specific portions of the leased land, payment penalties and/or termination of the agreement.

The grant to the lessee is also subject to the payment of royalties to the lessor based on production from the leased lands or revenues from production from the leased lands. Typically, the royalty procedure and calculation is comparable to the Crown royalty calculation, stated below. More specifically, the royalty rates vary (most often escalate) with the length of time a well or production unit has been producing. After a well or production unit has been producing for a specified period of time, or in some instances at the time a well “pays out”, the royalty will most often become fixed at a certain percentage. Furthermore, it is common for the lessor to have a right to acquire a working interest in the leased lands, or a right to convert the royalty interest to a working interest in the leased lands.

In addition, the lessee is often contractually obligated to consult with the lessor and associated aboriginal representatives and to commit to community support incentives such as first consideration for employment, training and business opportunities; support and utilization of local business; development of employment opportunity procedures and development training plans.

Pricing and Marketing — Natural Gas

In Canada, the price of natural gas sold domestically and internationally is determined by negotiation between buyers and sellers. Such price depends, in part, on natural gas quality, prices of competing natural gas and other fuels, distance to market, access to downstream transportation, length of contract term, weather conditions, the value

of refined products and the supply/demand balance and other contractual terms. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. While exporters are free to negotiate prices and other terms with purchasers, natural gas must be exported pursuant to either an export order or an export licence from the NEB. Natural gas exports for a term of less than two years, or for a term of between two and 20 years but in quantities of not more than 30 Mcf/d, must be made pursuant to an NEB export order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Governor in Council (i.e. federal cabinet).

Pricing and Marketing — Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance and other contractual terms. Oil must also be exported pursuant to either an export order or an export licence from the NEB. Oil exports for a term less than one year for light and medium crude, or two years for heavy crude, may be made pursuant to an export order. Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issue of such a licence requires the approval of the Governor in Council.

Royalties and Incentives

The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands, such as lands held privately in fee simple or lands held by First Nations groups, are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on well productivity, geographical location, production and marketing costs and the type or quality of the petroleum product produced. Additionally, other royalties and royalty-like interests are occasionally carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits or net carried interests.

Federal land in the Northwest Territories is categorized as "frontier lands" under the *Canada Petroleum Resources Act* (Canada) (the "CPRA"). Pursuant to the CPRA, royalties on petroleum and natural gas production from frontier lands are reserved for Canada's federal government. There are no royalties collected by or payable directly to the government of the Northwest Territories or any provincial government.

The calculation of federal Crown royalties on frontier lands is governed by the *Frontier Lands Petroleum Royalty Regulations* (Canada). Under these regulations, royalties are payable to the federal Crown once production from project lands has commenced (which is the time at which the petroleum products become marketable). Royalties are not payable during the pre-production period when activities such as exploration, testing, and drilling are being conducted.

Prior to payout, (payout means the point where the cumulative adjusted gross revenues of the interest holder in relation to the project exceeds the adjusted cumulative cost base of the interest holder in relation to the project) royalties are payable on a graduated monthly basis. For the first 18 months after production has commenced, 1% of gross revenues are payable to the Crown; for the 19th to the 36th month after the commencement of production, 2% of gross revenues are payable to the Crown; for the 37th to 54th month after production has commenced, 3% of gross revenues are payable to the Crown; for the 55th to the 72nd month after production has commenced, 4% of gross revenues are payable to the Crown; and from the 73rd month after production commences until payout has been achieved, 5% of gross revenues are payable to the Crown. The capital remaining in the payout account receives a capital cost allowance of the long-term Government of Canada bond rate plus 10% added annually to the account.

Once payout has been achieved, royalties to the Crown continue to be paid on a monthly basis. The post-payout Crown royalty payable will be the greater of 30 % of net revenues or five % of gross revenues of the project.

Royalties payable to the First Nations organizations on the Corporation's lands covered by concession agreements are similar to those payable to the Crown.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial, territorial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and natural gas industry operations. In addition, legislation requires that well, pipeline and facility sites be abandoned and reclaimed to the satisfaction of the applicable regulatory authority. A breach of such legislation may result in the imposition of fines and penalties, the revocation of necessary licenses and authorizations and civil liability for pollution damage.

In the Northwest Territories, environmental compliance is governed by the *Environmental Protection Act* (Northwest Territories) (the "EPA"), the *Environmental Rights Act* (Northwest Territories) (the "ERA"), the *Mackenzie Valley Resource Management Act* ("MVRMA") the *Canadian Environmental Assessment Act* (Canada) (the "CEAA"), the *Canadian Environmental Protection Act, 1999* (Canada) (the "CEPA") and the *Canada Oil and Gas Operations Act* (Canada) (the "COGOA"), all of which impose certain environmental responsibilities on oil and natural gas operators and working interest holders in the Northwest Territories and impose penalties for violations.

Canada ratified the Kyoto Protocol in late 2002 and as a result is obligated to set legally binding limits on carbon dioxide and other greenhouse gas ("GHG") emissions. On October 19, 2006, the Canadian federal government released a Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air Emissions. Details of the proposed regulations were released on April 26, 2007 under the federal government's "Turning the Corner" framework ("**Turning the Corner**"). The Turning the Corner framework contemplated an "emissions intensity" (i.e., GHG emissions per unit of production) based compliance regime. It was updated with further details on March 10, 2008, with regulations to come into force in 2010. However, the federal government has not released any such regulations and has subsequently indicated that it intends to instead adopt a "cap and trade" based GHG reduction regime to harmonize with anticipated legislation in the United States.

On January 29, 2010, Canada registered its commitment to reduce overall GHG emissions by 17% from 2005 levels by 2020 under the "Copenhagen Accord," to be aligned with the emissions target ultimately adopted by the United States. The Copenhagen Accord was the outcome of the 2009 United Nations Climate Change Conference ("**Copenhagen Summit**"). Canada's commitment thereunder is comparable to that registered by the United States, as well as the overall reduction target of Turning the Corner. However, the timing, scope and effects of anticipated federal GHG reduction regulations are uncertain.

The Corporation is committed to meeting its responsibilities to protect the environment wherever the Corporation operates or holds working interests and anticipates making increased expenditures of both a capital and expense nature, as a result of increasingly stringent laws relating to the protection of the environment. The Corporation will take such steps as required to ensure compliance with the EPA, ERA, CEAA, MVRMA, CEPA, COGOA and any future federal GHG reduction regulations. The Corporation believes that it is reasonably likely that the trend in environmental legislation and regulation will continue towards lower emission standards and that this could lead to increased capital expenditures and operating costs.

RISK FACTORS

The following is a summary of material risk factors relating to the Corporation and the ownership of the Corporation's securities. These risk factors should be carefully considered.

Limited Operating History

The Common Shares are highly speculative in nature. The Corporation has a limited operating history. Further, there can be no assurance that any of its oil and gas properties will generate earnings, operate profitably or provide a return on investment in the future. Accordingly, an investment in Common Shares is appropriate only for those investors who are prepared to invest in the Corporation for the long term and who have the capacity to absorb a total loss of their investment. The Corporation has historically incurred losses from operations. As at December 31, 2009, the Corporation had a cumulative deficit of \$211 million. There can be no assurance that the Corporation will achieve profitability in the future. In addition, should the Corporation be unable to continue as a going concern, realization of assets and settlement of liabilities other than in the normal course of business may be at amounts significantly different from those in the financial statements.

Future Financing

The Corporation will require future financing through the issuance of equity and/or debt to fund its future exploration, development and operations. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit the Corporation's growth or may have a material adverse affect upon the Corporation. The Corporation cannot predict the size of future issuances of equity or the issuance of debt or the effect, if any, that future issuances and sales of the Corporation's securities will have on the market price of the Common Shares.

Mackenzie Valley Pipeline and Securing Transportation Arrangements

To date, energy infrastructure, specifically in the form of pipelines to transport natural gas, has not yet reached regions north of the Cameron Hills area of the southern Northwest Territories. Additionally, pipelines to transport oil and other liquid hydrocarbons have not yet reached north of Norman Wells in the central Mackenzie Valley. A majority of the Corporation's assets are located in these areas. Until a natural gas pipeline is built from the Mackenzie Valley to connect to the Alberta or British Columbia pipeline systems, there is no commercial method to move to market natural gas which the Corporation, or any other entity, may discover to market. In addition, a liquids line is required north of Norman Wells to move liquid hydrocarbons discovered north of that area to market. As a result, for at least the next few years, it is unlikely that the Corporation will generate any revenue from the production of hydrocarbons, unless the Corporation has an oil discovery in close proximity to the existing oil pipeline from Norman Wells.

If the construction of the proposed Mackenzie Valley pipeline and related gathering system is deferred, delayed or not approved, this will have a material adverse impact on the Corporation's operations. However, in such event, the Corporation will examine its available options to transport its natural gas to market, including the construction by the Corporation or the support by the Corporation for the construction by others of alternate pipeline and gathering systems. However, even if a Mackenzie Valley pipeline, related gathering system or other delivery and gathering systems accessible to the Corporation are constructed, the Corporation's ability to deliver production from its assets may be affected by certain factors which may be beyond the Corporation's control, including but not limited to, the proximity of such reserves to such pipelines and processing facilities, the availability of pipeline and processing capacity, the ability of the Corporation to access such pipelines and facilities on terms acceptable to the Corporation and operational problems affecting such pipelines and facilities. If the Corporation is unable to transport its oil, natural gas and NGLs to market within a reasonable time, the value of its assets, and therefore of the Common Shares, will be materially affected.

Resource Estimates

The Resource estimates in respect of certain of the Corporation's assets and the area in which the assets are located are only estimates and the ultimate amount produced may be significantly less than the estimates. Estimates of Resources depend in large part upon the reliability of available geological and engineering data. Geological and engineering data are used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to the extent to which, such hydrocarbons are recoverable from the reservoir. See "Oil and Natural Gas Properties – Contingent and Prospective Resource Estimates".

Access to Letter of Credit Facility

The Corporation is required to provide letters of credit in connection with different aspects of its operations. As at the date of this Annual Information Form, the Corporation has a credit facility which provides for the issuance of letters of credit sufficient to meet the Corporation's expected needs in the near future. The credit facility is provided by a Schedule 1 Canadian bank on a demand basis. The bank has provided no indication to the Corporation that it will not continue to provide the facility; however, there can be no assurance that the facility will remain available for an extended period. If the credit facility was no longer available, there can be no assurance that a replacement lender would be available to provide the facility.

Significant Fluctuations in Market Price Unrelated to the Corporation's Financial Performance or Prospects

The trading price of the Common Shares has been and may continue to be subject to significant fluctuations which may be based on factors unrelated to the Corporation's financial performance or prospects. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Common Shares may also be significantly affected by changes in commodity prices, currency exchange fluctuation or in the Corporation's financial condition or results of operations. Other factors unrelated to the performance of the Corporation that may have an effect on the price of the securities of the Corporation include the following: the extent of analytical coverage available to investors concerning the business of the Corporation may be limited if investment banks with research capabilities do not follow the Corporation's securities; lessening in trading volume and general market interest in the Corporation's securities may affect an investor's ability to trade significant numbers of securities of the Corporation; the size of the Corporation's public float may limit the ability of some institutions to invest in the Corporation's securities. If an active market for the securities of the Corporation does not continue, the liquidity of an investor's investment may be limited and the price of the securities of the Corporation may decline.

Exploration Risks

The exploration of the Corporation's oil and gas properties involves a high degree of risk that no new discoveries will be made or that the discoveries will be insufficient to recover drilling and completion costs. The costs of drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Corporation's exploration programs and projects. In addition, the Corporation's drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary regulatory or other third party approvals and compliance with regulatory requirements.

Operational Matters

The ownership and operation of oil and natural gas wells, pipelines and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to the Corporation's properties and possible liability to third parties. The Corporation employs prudent risk management practices and maintains suitable liability insurance, where available. The Corporation may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities could have a material adverse effect on the Corporation, its operations and financial condition.

Cash Flow from Operations

The funds flow from operations of the Corporation for the recently completed financial year ended December 31, 2009 was negative \$6.7 million. The inability of the Corporation to generate positive operating cash inflow in the future could have a material adverse impact on its business, operations and prospects.

Management and Key Personnel

Successfully exploring for, developing and commercializing oil and gas interests depends on a number of factors, not the least of which is the technical skill of the personnel involved. The Corporation's success will be, in part, dependent on the performance of its key managers and consultants. Failure to retain the managers and consultants, or to attract or retain additional key personnel, with the necessary skills and experience could have a materially adverse impact upon the Corporation's growth and profitability. The Corporation does not carry key person insurance.

Availability of Equipment and Qualified Personnel and Related Costs

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified personnel in the particular areas where such activities will be conducted. Demand for such limited equipment and qualified personnel may affect the availability of such equipment and qualified personnel to the Corporation and may delay the Corporation's exploration and development activities. In addition, the costs of qualified personnel and equipment in the area where the Corporation's assets are located are very high due to the availability of, and demands for, such qualified personnel and equipment in the area.

Volatility of Commodity Prices

Oil and natural gas prices fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of the Corporation. Political and economic developments around the world can affect world oil and natural gas supply and prices. Any prolonged period of low oil and natural gas prices could result in a decision by the Corporation to suspend or terminate exploration, as it may become uneconomic to explore for and/or produce oil or natural gas at such prices.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulations pursuant to provincial, territorial and federal legislation. A breach of such legislation may result in the imposition of fines or other penalties, the revocation of necessary licenses and authorizations and civil liability for pollution damage. This could result from either exploration or well abandonment activities. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. See "Industry Conditions — Environmental Regulation". Should the Corporation be unable to fully fund the cost of remedying an environmental problem, the Corporation might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not adversely affect the Corporation's financial condition, results of operations or prospects.

Seasonality and Climate

The Corporation's assets are only accessible when the ground is frozen, typically from November through April. Accordingly, a mild winter may result in limited access and, as a result, reduced operations or a cessation of operations. In addition, the Corporation's assets are located in the far north of Canada where the climate can be very cold and harsh. Extreme cold or other harsh weather such as blizzards can result in additional costs and delays to the Corporation's exploration programs.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. The Corporation will actively compete for capital, skilled personnel, access to rigs and other equipment, access to processing facilities and pipeline and refining capacity and in all other aspects of its operations with a substantial number of other organizations, many of which will have greater technical and financial resources than the Corporation.

Potential Conflicts of Interest

Certain conflicts of interest could arise as a result of the relationship between Paramount and the Corporation. Two of the directors of the Corporation are directors of Paramount, and one officer of the Corporation is also an officer of Paramount. In addition, the Corporation contracts with Paramount for certain services pursuant to the New Services Agreement. The directors and officers of Paramount and the Corporation have fiduciary duties to manage Paramount and the Corporation, respectively, in a manner beneficial to Paramount and the Corporation, respectively. The duties of the directors and officers of Paramount and the Corporation may come into conflict. Current members of the Board of Directors are directors or officers of corporations which are in competition to the interests of the Corporation. No assurances can be given that opportunities identified by such board members will be provided to the Corporation. See "Directors and Officers – Conflicts of Interest and Fiduciary Duties".

Investment Returns

The Corporation has never paid a dividend nor made a distribution on any of its securities. Further, the Corporation may never achieve a level of profitability that would permit payment of dividends or making other forms of distributions to security holders. In any event, given the stage of the Corporation's development, it will likely be a long period of time before the Corporation could be in a position to make dividends or distributions to its investors. The payment of any future dividends by the Corporation will be at the sole discretion of the Board. In this regard, the Corporation currently intends to retain earnings to finance the expansion of its business and does not anticipate paying dividends in the foreseeable future.

Forward-Looking Information May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this Annual Information Form under the heading "*Forward-Looking Statements*".

DIRECTORS AND OFFICERS

The Corporation's articles provide that the Corporation must have a minimum of three and a maximum of twelve directors. The Corporation's directors will be elected annually by the Corporation's shareholders, with the Board of Directors having the ability to appoint additional directors between annual meetings of shareholders in accordance with the Corporation's by-laws and the ABCA.

Directors and Officers of the Corporation

As at December 31, 2009, the directors of the Corporation were as set forth below. The name, municipality of residence, position and offices held with the Corporation and principal occupations for the prior five years of each of the directors and senior officers of the Corporation are as follows:

Name and Municipality of Residence	Present Position(s) with MGM Energy	Director Since⁽¹⁾	Principal Occupation in Past Five Years
Clayton H. Riddell ⁽⁴⁾ Calgary, Alberta	Chief Executive Officer and Director	January 11, 2007	Chief Executive Officer of Paramount.
James H. T. Riddell Calgary, Alberta	Executive Chairman and Director	October 31, 2006	President and Chief Operating Officer of Paramount.
Henry W. Sykes Calgary, Alberta	President and Director	January 11, 2007	President of MGM Energy since January 11, 2007; prior thereto, from March 2001 to March 2006, President of ConocoPhillips Canada.
Richard N. Miller Calgary, Alberta	Chief Financial Officer	N/A	Chief Financial Officer since July 30, 2007; prior thereto, from April 2006 to July 2007, Vice President and Chief Financial Officer of Wave Energy Ltd.; prior thereto, from October 2004 to December 2005, Treasurer of Precision Drilling Corporation;
Gary L. Bunio Calgary, Alberta	Vice President and Chief Operating Officer	N/A	Vice President and Chief Operating Officer of MGM Energy since January 11, 2007; prior thereto from September 2003, Manager, Heavy Oil and Sahtu Development of Paramount;
Nancy F. Dilts Calgary, Alberta	Vice President, Legal & Regulatory and Corporate Secretary	N/A	Vice President, Legal & Regulatory and Corporate Secretary of MGM Energy since March 19, 2007; prior thereto, from September 2002 to March 2007, Vice President General Counsel of ConocoPhillips Canada.
John R. Hogg Calgary, Alberta	Vice President, Exploration	N/A	Vice President, Exploration since May 17, 2007; prior thereto, from April 2006 to May 2007 Manager, Frontier and New Ventures with ConocoPhillips Canada; prior thereto various senior positions with Burlington Resources Canada (2005 to 2006) and EnCana Corporation (2003 to 2005)
Michael N. Chernoff ⁽³⁾⁽⁵⁾⁽⁶⁾ West Vancouver, British Columbia	Director	January 11, 2007	Corporate Director
Daryl H. Gilbert ⁽²⁾⁽⁵⁾⁽⁶⁾ Calgary, Alberta	Director	January 11, 2007	Managing Director, JOG Capital since May 2008 and Corporate Director; prior thereto, from 1994 to 2005, President and Chief Executive Officer of Gilbert Laustsen Jung Associates Ltd.
Robert B. Hodgins ⁽²⁾⁽⁴⁾⁽⁶⁾ Calgary, Alberta	Director	January 11, 2007	Corporate Director
Robert B. Peterson ⁽³⁾⁽⁵⁾⁽⁶⁾ Aurora, Ontario	Director	January 11, 2007	Corporate Director

Name and Municipality of Residence	Present Position(s) with MGM Energy	Director Since⁽¹⁾	Principal Occupation in Past Five Years
Robert R. Rooney ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Calgary, Alberta	Director	January 11, 2007	Executive Vice President, Legal and General Counsel of Talisman Energy Inc. since November 3, 2008; prior thereto, Corporate Director; prior thereto, until November 2005, partner with the law firm of Bennett Jones LLP.

Notes:

- (1) All of the directors of the Corporation have been appointed to hold office until the next annual general meeting of shareholders or until their successors are duly elected or appointed, unless their office was earlier vacated.
- (2) Member of Audit Committee.
- (3) Member of Compensation Committee.
- (4) Member of Corporate Governance Committee.
- (5) Member of Environmental, Health and Safety Committee.
- (6) Independent Director.

As at March 25, 2010, the directors and executive officers of the Corporation, as a group, beneficially owns, or controls or directs, directly or indirectly, 73,314,923 Common Shares (approximately 25.3% of the issued and outstanding Common Shares). The information as to Common Shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective individuals.

Committees of the Board of Directors

The Board of Directors has appointed an Audit Committee, a Compensation Committee, a Corporate Governance Committee and an Environmental, Health and Safety Committee, each consisting of three directors. The Audit Committee, the Compensation Committee and the Environmental, Health and Safety Committee are currently comprised entirely of independent directors. The Corporate Governance Committee is comprised of a majority of independent directors. The Board of Directors may from time to time establish additional committees. The mandates of each of the committees have been established and are in compliance with applicable legal and regulatory requirements. A summary of the activities and responsibilities of each of the committees is set out in the “Board Committees and Composition” section of the Corporation’s Management Information Circular and a “Statement of Corporate Governance Practices” is included as a schedule to the Management Information Circular.

Conflicts of Interest and Fiduciary Duties

Certain conflicts of interest could arise as a result of the relationship between Paramount and the Corporation. Two of the directors of the Corporation are directors of Paramount and one officer of the Corporation is an officer of Paramount. In addition, the Corporation contracts with Paramount for the provision of certain services including human resources and other minor services pursuant to the New Services Agreement. The directors and officers of Paramount and the Corporation have fiduciary duties to manage Paramount and the Corporation, respectively, in a manner beneficial to Paramount and the Corporation, respectively. The duties of the directors and officers of Paramount and the Corporation may come into conflict. Such conflicts will be resolved in accordance with the ABCA, where applicable. For more information regarding Paramount’s relationship to the Corporation, see “Services Agreement”.

There are potential conflicts of interest to which the directors and officers of the Corporation may be subject in connection with the operations of the Corporation. In particular, certain of the directors and officers of the Corporation are involved in director and officer positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of the Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation.

Clayton H. Riddell, a director and officer of the Corporation, who is also a significant shareholder, has provided a guarantee for \$14 million as security for the Corporation’s existing credit facility. In the event that the guarantee is called on by the provider of the credit facility, Mr. Riddell would assume the Bank’s security position consisting of a

first floating debenture over the Company's assets and become a secured lender to the Corporation. This may give rise to a conflict of interest as Mr. Riddell would be both a significant shareholder and a secured creditor.

Certain directors of the Corporation are associated with other companies, including Paramount, which may give rise to conflicts of interest. In accordance with the ABCA, directors who have an interest in a material contract or a material transaction, whether made or proposed, with the Corporation are required, subject to certain exceptions, to disclose the nature and extent of the interest. A director required to disclose such interest shall abstain from voting on any resolution to approve the contract or transaction, except as otherwise permitted by the ABCA. In addition, each director is required to act honestly and in good faith with a view to the best interests of the Corporation.

Certain directors of the Corporation have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Corporation will only be able to devote part of their time to the affairs of the Corporation.

Cease Trade Orders or Bankruptcies

No director, executive officer or controlling shareholder of the Corporation has or is, within the past ten years, been a director, chief executive officer, chief financial officer or executive officer of any other issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions under securities legislation that was in effect for a period of more than 30 consecutive days;
- (b) was subject to an order that resulted, after the director or executive officer ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the relevant issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; or
- (c) became bankrupt (or within a year of that person ceasing to act in that capacity became bankrupt), made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets,

except that Mr. James H.T. Riddell was a director of Jurassic Oil and Gas Ltd. ("Jurassic"), a private oil and gas company, within one year prior to such company becoming bankrupt. Jurassic's bankruptcy was subsequently annulled. In addition, Mr. Daryl H. Gilbert was a director and shareholder of Globel Direct, Inc. from May 1998 to September 2008. Globel Direct, Inc. was issued cease trade orders on November 20, 2002 by the British Columbia Securities Commission and on November 22, 2002 by the Alberta Securities Commission for delay in filing financial statements. The required financial statements were filed and the cease trade orders were revoked on December 23, 2002. Globel Direct, Inc. sought and received protection under the *Companies' Creditors Arrangement Act* (Canada) on June 12, 2007 as a result of being in default under certain secured debentures with its major lenders. After a failed restructuring effort, a receiver was appointed by one of the company's lenders in December 2007. Globel Direct, Inc. has since ceased operations. From 1992 to 2008, Paramount was the general partner of T.T.Y. Paramount Partnership No. 5 ("TTY"), a limited partnership which is an unlisted reporting issuer in certain provinces of Canada. Messrs. James H. T. Riddell and Clayton H. Riddell are officers and directors of Paramount. TTY was established in 1980 to conduct oil and gas exploration and development, but has not carried on operations since 1984 and had only nominal assets. A cease trade order against TTY was issued by the Quebec Securities Commission in 1999 for failing to file the June 30, 1998 interim financial statements in Quebec. The cease trade order was revoked on April 9, 2008. TTY was dissolved on July 21, 2008.

Penalties or Sanctions

No director, executive officer or controlling shareholder of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered

into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No director, executive officer or controlling shareholder of the Corporation, or a personal holding company of any such person has, within the past ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

SERVICES AGREEMENT

Paramount may, subject to the overall independence of the Corporation, provide certain services to the Corporation. The Corporation may from time to time retain other third parties to provide administrative services required by it or may cease to retain any third parties (including Paramount) and provide all such services internally.

In providing services to the Corporation, Paramount will act honestly and in good faith and exercise that degree of diligence and skill that a reasonably prudent contractor would exercise in comparable circumstances. Although Paramount may delegate the performance of its duties and obligations to its affiliates or third parties, Paramount will continue to be responsible for the performance of its obligations under the New Services Agreement.

The Corporation will pay Paramount its reasonable costs incurred in providing the services to the Corporation plus 10% of such costs.

The Services Agreement expired on December 31, 2007, and was revised and extended to December 31, 2008 and subsequently to December 31, 2009. The New Services Agreement executed by both parties is effective January 1, 2010 and continues in effect until terminated by either party upon six months prior written notice. In addition, either the Corporation or Paramount may, by written notice, immediately terminate the New Services Agreement in the event of (i) certain events of insolvency, receivership, liquidation or the suspension of the usual business of the other party or (ii) a breach by the other party in the performance of a material obligation under the New Services Agreement (other than as a result of the occurrence of a force majeure event) which is not remedied within 30 days of receipt of notice of such breach, or when not reasonably capable of being remedied within 30 days, such party fails to take reasonable steps to remedy such default and give reasonable assurances that such default will be remedied within a reasonable period of time. The Corporation may also, by written notice, immediately terminate the New Services Agreement in the event of a direct or indirect change of control of Paramount if the written consent of the directors of the Corporation has not been obtained prior to such change of control, provided that consent is not required for a change in the holdings of the securities of Paramount.

AUDIT COMMITTEE INFORMATION

The purpose of the Corporation's audit committee (the "Audit Committee") is to provide assistance to the Board of Directors in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation, and the evaluation and disclosure of its oil and gas reserves. It is the objective of the Audit Committee to maintain free and open communication among the Board of Directors, the external auditors and the financial and senior management of the Corporation.

The full mandate of the Audit Committee of the Board of Directors is set forth in Schedule "C" attached hereto.

Composition of the Audit Committee

The following table sets forth the name of each current member of the Audit Committee, whether such member is independent, whether such member is financially literate and the relevant education and experience of such member.

<u>Name</u>	<u>Independent</u>	<u>Financially Literate</u>
Robert B. Hodgins	Yes	Yes
Robert R. Rooney	Yes	Yes
Daryl H. Gilbert	Yes	Yes

Relevant Education and Experience

Mr. Robert B. Hodgins is an investor and corporate director. From 2002 to 2004, Mr. Hodgins served as the Chief Financial Officer of Pengrowth Energy Trust. Prior to this, Mr. Hodgins was Vice President and Treasurer of Canadian Pacific Limited and Chief Financial Officer of TransCanada Pipelines Limited from 1993 to 1998 and held various other positions at TransCanada Pipelines Limited commencing in 1981. Mr. Hodgins is a director of Fairborne Energy Ltd., AltaGas Income Trust, Enerplus Resources Fund and Orion Oil and Gas Corporation. Mr. Hodgins received his B.A. in Business from the Richard Ivey School of Business at the University of Western Ontario and is a Chartered Accountant.

Mr. Robert R. Rooney is currently Executive Vice-President, Legal and General Counsel for Talisman Energy Inc. He is currently a director of Ferus Inc., a private company, and has been a director and/or trustee of several other public and private corporations, including Cordero Energy Inc., Gentry Resources Ltd., Temple Energy Inc., Engineered Drilling Solutions Inc., Madagascar Oil Limited, Resolute Energy Inc., Blizzard Energy Inc. and Zenas Energy Corp. He has also served on the audit committee for several companies. His career has provided him with relevant experience in evaluating financial statements and he has gained an understanding of internal controls, financial reporting and audit committee functions. Until November 2005, Mr. Rooney was a partner with Bennett Jones LLP where he was a member of the Executive Committee and led the firm's Energy and Natural Resources practice group. Mr. Rooney received his LL.B. from the University of Western Ontario and is a member of the Law Society of Alberta.

Mr. Daryl H. Gilbert is currently a Managing Director of JOG Capital Inc., a private equity firm. From 1994 to 2005, Mr. Gilbert served as President and Chief Executive Officer of Gilbert Lausten Jung Associates Ltd., a petroleum engineering and geological consulting firm. Mr. Gilbert is a director of a number of public and private energy companies, including AltaGas Income Trust, Galleon Energy Inc. and PennWest Energy Trust. Mr. Gilbert received a B.Sc. in Civil Engineering from the University of Manitoba and is a member of the Association of Petroleum Engineers, Geologists and Geophysicists of Alberta, the Canadian Institute of Mining and Metallurgy and the Society of Petroleum Evaluation Engineers.

External Auditor Service Fees

The external auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, Calgary, Alberta. Ernst & Young LLP have been the Corporation's external auditors since January 11, 2007. The following table provides information about the fees billed to the Corporation for professional services rendered by Ernst & Young LLP for the past two fiscal years:

(\$ thousands)	<u>2009</u>	<u>2008</u>
Audit Fees ⁽¹⁾	90	141
Audit-Related Fees ⁽²⁾	15	52
Tax Fees ⁽³⁾	8	9
Other Fees	-	-
Total	113	202

Notes:

(1) Audit fees consist of fees for the audit of the Corporation's annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements, including services associated with public and private offerings of securities.

(2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported as Audit Fees. During fiscal 2008 and 2009, the services provided in this category included accounting consultation and a review of internal controls.

(3) Tax fees consist of fees for tax compliance services, tax advice and tax planning. During fiscal 2008 and 2009, the services provided in this category included assistance with completing and filing income tax returns and advice regarding flow-through shares.

DIVIDENDS

The Corporation has not declared nor paid any dividends on any Common Shares since incorporation, and does not foresee the declaration or payment of any dividends on the Common Shares in the near future. Any decision to pay dividends on the Common Shares will be made by the Board of Directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time and which the Board of Directors consider appropriate in the circumstances.

DESCRIPTION OF CAPITAL STRUCTURE

The following is a summary of the rights, privileges, restrictions and conditions attached to the Common Shares, the Preferred Shares, Class A Preferred Shares and Non-Voting Common Shares.

Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares. The holders of Common Shares are entitled to receive dividends if, as and when declared by the Board of Directors, in such amounts as the Board of Directors may determine. Holders of Common Shares are entitled to receive dividends exclusive of any other shares of the Corporation. The holders of Common Shares are entitled to receive notice of, and to attend, all meetings of the shareholders of the Corporation and to one vote in respect of each Common Share at all such meetings, except meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series at such meeting. In the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of Common Shares are entitled to share equally with the holders of Non-Voting Common Shares on a share for share basis (subject to preferences accorded to holders of any class or series of preferred shares of the Corporation and any shares ranking senior to the Common Shares and Non-Voting Common Shares) in the remaining property of the Corporation.

Preferred Shares

Subject to filing articles of amendment, the Corporation is authorized to issue an unlimited number of Preferred Shares, issuable in one or more series. The Board of Directors may determine the designation, rights, privileges, restrictions and conditions attached to each series of Preferred Shares before the issue of such series. The Preferred Shares are entitled to a preference over Common Shares and Non-Voting Common Shares and any other shares ranking junior to the Preferred Shares with respect to the payment of dividends and the distribution of assets of the Corporation in the event of liquidation, dissolution or winding-up of the Corporation.

Class A Preferred Shares

The Corporation is authorized to issue 18.2 million Class A Preferred Shares. The holders of Class A Preferred Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Corporation to one vote in respect of each Class A Preferred Share at such meetings, except meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series at such meeting. The holders of Class A Preferred Shares are entitled to a fixed preferential cumulative dividend at the rate of 5% of the stated issue price of such shares commencing October 1, 2007. In the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of Class A Preferred Shares will be entitled to receive \$5.00 per share plus accrued and unpaid dividends in priority to any payments to the holders of Common Shares and Non-Voting Common Shares. The Class A Preferred Shares are convertible at any time, at the option of the holder, into Common Shares on a one-for-one basis.

On February 16, 2007, all previously issued Class A Preferred Shares were converted into Common Shares on a one-for-one basis. As of the date hereof, there are no issued and outstanding Class A Preferred Shares.

Non-Voting Common Shares

On March 3, 2010, the Articles of the Corporation were amended to create Non-Voting Common Shares of the Corporation. The Corporation is entitled to issue an unlimited number of Non-Voting Common Shares. The holders of Non-Voting Common Shares are entitled to receive dividends if, as and when declared by the Board of Directors, in such amounts as the Board of Directors may determine. Holders of Non-Voting Common Shares are entitled to receive dividends exclusive of any other shares of the Corporation other than Common Shares. The holders of Non-Voting Common Shares are not entitled to any vote, nor are the holders of Non-Voting Common Shares entitled to receive notice of or to attend and vote at any meetings of the shareholders of the Corporation. In the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of Non-Voting Common Shares are entitled to share equally with the holders of Common Shares on a share for share basis (subject to preferences accorded to holders of any class or series of preferred shares of the Corporation and any shares ranking senior to the Common Shares and Non-Voting Common Shares) in the remaining property of the Corporation.

MARKET FOR THE CORPORATION'S SECURITIES

On January 17, 2007, the Common Shares of the Corporation were listed and posted for trading on the TSX under the trading symbol "MGX". The following table sets forth the market price ranges (to the nearest \$0.01) and the aggregate volume of trading of the Common Shares on the TSX for the periods indicated:

Price Trading Range

	High (\$)	Low (\$)	Close (\$)	Trading Volume
<u>2009</u>				
January	0.24	0.14	0.16	7,874,210
February	0.22	0.14	0.15	6,707,433
March	0.17	0.10	0.11	4,550,958
April	0.13	0.09	0.11	10,240,002
May	0.19	0.11	0.14	9,277,605
June	0.18	0.14	0.16	8,025,547
July	0.16	0.12	0.13	3,833,070
August	0.15	0.11	0.14	4,160,579
September	0.15	0.12	0.14	2,555,127
October	0.20	0.13	0.13	8,325,433
November	0.15	0.12	0.15	5,172,222
December	0.33	0.13	0.29	7,776,461

PRIOR SALES

During the most recently completed financial year ended December 31, 2009, the Corporation granted 10,835,500 options issuable into 10,835,500 Common Shares, the particulars of which are set forth in the following table:

Date of Grant	Number of Common Shares Issuable on Exercise⁽¹⁾	Average Exercise Price (\$)
February 2009	155,000	\$0.18
September 2009	10,680,500	\$0.14

Note:

(1) Each option entitles the holder thereof to acquire one Common Share, on the terms and conditions set forth in the Corporation's option plan.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, Calgary, Alberta who were appointed on January 11, 2007.

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario.

LEGAL PROCEEDINGS

The Corporation is not aware of any legal proceedings against it or any of its properties, nor are any such proceedings known by the Corporation to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, there are no material interests, direct or indirect, of the directors or executive officers of the Corporation, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares or any known associate or affiliate of such persons, in any transaction

since its inception or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

Paramount may provide administrative, operating and other services to the Corporation pursuant to the New Services Agreement, in respect of which it will receive its costs in providing such services plus 10% of such costs. See "Services Agreement".

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the Corporation has not entered into any material contracts within the last financial year or before the last financial year which are still in effect, other than as follows:

1. the MDFI Agreement referred to under "Oil and Natural Gas Properties – The Farmin Properties";
2. the Ancillary Asset Transfer Agreement referred to under "Oil and Gas Reserves Data – Ancillary Asset"; and
3. the Restructured MDFI Agreement referred to under "Oil and Natural Gas Properties – The Farmin Properties".

INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants, are the Corporation's auditors and have audited the financial statements of the Corporation for the year ended December 31, 2009. McDaniel, an independent qualified reserves evaluator prepared the McDaniel Report.

Ernst & Young LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

As at March 25, 2010, McDaniel, as a group, owns, directly or indirectly, less than 1% of the outstanding Common Shares.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available through SEDAR at www.sedar.com. In particular, additional information, including remuneration and indebtedness of directors and officers of the Corporation, the principal holders of Common Shares and the securities authorized for issuance under equity compensation plans, is contained in the Corporation's Management Information Circular relating to the most recent Annual Meeting of Shareholders. Management Information Circulars are available on SEDAR at www.sedar.com and on the Corporation's website at www.mgmenergy.com. Additional financial information is contained in the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2009.

SCHEDULE A

**Report on Reserves Data by Independent Qualified
Reserves Evaluator or Auditor**

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

To the board of directors of MGM Energy Corp. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2009. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009 estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended December 31, 2009, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management.

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (\$M) (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
February 10, 2010	Canada	-	5,119	-	5,119

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of recovery.

Executed as to our report referred to above.

MCDANIEL & ASSOCIATES CONSULTANTS LTD.
(SIGNED) "C.B. KOWALSKI"

February 10, 2010

SCHEDULE B

Report of Management and Directors on Reserves Data and Other Information

Management of MGM Energy Corp. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report. The Audit Committee of the board of directors of the Company has:

- a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Audit Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Audit Committee, approved:

- a) the content and filing with securities regulatory authorities of Form 51-101F1 presented in the Company's Annual Information Form containing reserves data and other oil and gas information;
- b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

"Clay Riddell"
Clay Riddell
Chief Executive Officer

"Henry W. Sykes"
Henry W. Sykes
President

"Richard Miller"
Richard Miller
Chief Financial Officer

"Robert Hodgins"
Robert Hodgins
Director and Chairman of the Audit Committee

"Daryl Gilbert"
Daryl Gilbert
Director
March 15, 2010

SCHEDULE C

AUDIT COMMITTEE CHARTER

(Adopted by the Board of Directors on March 29, 2007)

A. PURPOSE

The overall purpose of the Audit Committee (the “Committee”) is to oversee the Corporation’s management in the design and implementation of an effective system of internal financial controls and disclosure controls and procedures, to review and report on the integrity of the consolidated financial statements of the Corporation, to review the Corporation’s compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts and to review the Corporation’s externally disclosed oil and gas reserves estimates including reviewing the qualifications of, and procedures used by, the independent engineering firm responsible for evaluating the Corporation’s reserves.

B. COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of at least three members of the Board of Directors (the “Board”), all of whom shall be “independent”, as that term is defined in Sections 1.4 and 1.5 of Multilateral Instrument 52-110 *Audit Committees*¹ and who meet the requirements of Section 3.5(1) of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*².
2. All of the members of the Committee shall be “financially literate” (i.e. able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issuer that can be reasonably expected to be raised by the issuer’s financial statements).
3. The Board shall appoint the members of the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
4. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their members.
5. The Corporate Secretary of the Corporation shall be the secretary of the Committee, unless otherwise determined by the Committee.
6. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
7. The Committee shall have access to such officers and employees of the Corporation and to the Corporation’s external auditors, and to such information respecting the Corporation, as it considers necessary or advisable in order to perform its duties and responsibilities.
8. Meetings of the Committee shall be conducted as follows:
 - (a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
 - (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee;

- (c) the following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

Chief Executive Officer
President
Chief Financial Officer
Controller
Corporate Secretary

- (d) other management representatives shall be invited to attend as necessary; and
 - (e) the Committee shall hold an *in camera* session for committee members only at each of its meetings.
9. The external auditors shall report directly to the Committee and the external auditors and internal auditors (if any) shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.
10. The Committee may retain, at the Corporation's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties and may set and pay the compensation for any advisor so engaged. The Committee will notify the Chairman of the Corporate Governance Committee whenever independent consultants are engaged.

C. ROLES AND RESPONSIBILITIES

1. The overall duties and responsibilities of the Committee shall be as follows:
- (a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval for release to shareholders of the Corporation's annual and quarterly consolidated financial statements and management's discussion and analysis;
 - (b) to establish and maintain a direct line of communication with the Corporation's internal (if any) and external auditors and assess their performance;
 - (c) to periodically review management's design, implementation and maintenance of an effective system of internal financial controls and disclosure controls and procedures;
 - (d) to periodically review the audit and non-audit services pre-approval policy and recommend to the Board any changes which the Committee deems appropriate;
 - (e) to periodically consider whether there is a need to outsource internal audit functions or create an internal audit department;
 - (f) to assist the Board in the discharge of its responsibilities relating to the evaluation and disclosure of its oil and gas reserves and oil and gas activities and the approval and filing of all necessary statements and reports related thereto;
 - (g) to receive and review complaints received pursuant to the Corporation's Whistleblower Policy and oversee and provide direction on the investigation and resolution of such concerns and to periodically review the said policy and recommend to the Board changes which the Committee may deem appropriate;

- (h) to report regularly to the Board on the fulfilment of its duties and responsibilities;
- (i) to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation; and
- (j) to review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:

- (a) to be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;
- (b) to recommend to the Board a firm of external auditors to be nominated for appointment by the shareholders of the Corporation, and to monitor and verify the independence of such external auditors;
- (c) to review and approve the fee, scope and timing of the audit and other related services rendered by the external auditors;
- (d) review the audit plan of the external auditors prior to the commencement of the audit;
- (e) to review with the external auditors, upon completion of their audit:
 - (i) contents of their report;
 - (ii) scope and quality of the audit work performed;
 - (iii) adequacy of the Corporation's financial and auditing personnel;
 - (iv) co-operation received from the Corporation's personnel during the audit;
 - (v) internal resources used;
 - (vi) significant transactions outside of the normal business of the Corporation;
 - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
 - (viii) the non-audit services provided by the external auditors, as pre-approved pursuant to the audit and non-audit services pre-approval policy;
- (f) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles;
- (g) to review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and
- (h) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management.

3. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management;
 - (b) review compliance under the Corporation's Code of Business Conduct Policy with those matters addressed in the policy which affect the financial integrity of the Corporation and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate; and
 - (c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal accounting staff or by the external auditors have been implemented.

4. The Committee is also charged with the responsibility to:

- (a) review and recommend to the Board for its approval, the Corporation's annual financial statements, management's discussion and analysis, annual information form and annual earnings press releases before the Corporation publicly discloses this information;
- (b) review and approve the Corporation's interim financial statements, interim management's discussion and analysis including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto and interim earnings press releases before the Corporation publicly discloses this information;
- (c) review and approve the financial sections of:
 - (i) the annual report to shareholders;
 - (ii) the annual information form;
 - (iii) prospectuses;
 - (iv) other public reports requiring approval by the Board; and
 - (v) press releases related thereto,

and report to the Board with respect thereto;

- (d) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
- (e) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
- (f) review the minutes of any audit committee meeting of subsidiary companies;
- (g) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;

- (h) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts; and
 - (i) develop a calendar of activities to be undertaken by the Committee for each ensuing year related to the Committee's duties and responsibilities as set forth in this Charter and to submit the calendar in the appropriate format to the Board of Directors within a reasonable period of time following each annual general meeting of shareholders.
5. The duties and responsibilities of the Committee as they relate to the Corporation's oil and gas reserves estimates are to:
- (a) review, with reasonable frequency, the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities, including its procedures for complying with the disclosure requirements and restrictions of all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto;
 - (b) review the appointment of the independent engineering firm responsible for evaluating the Corporation's reserves, and in the case of any proposed change in such appointment, determine the reasons for the proposal and whether there have been disputes between the appointed reserves evaluator and Management of the Corporation;
 - (c) review, with reasonable frequency, the Corporation's procedures for providing information to the reserves evaluator;
 - (d) before approving the filing of reserves data and the report of the reserves evaluator as required under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto, meet with Management and the reserves evaluator to:
 - (i) determine whether any restrictions affect the ability of the reserves evaluator to report on reserves data without reservation, and
 - (ii) review the reserves data and the report of the reserves evaluator
 - (iii) review, discuss with and make recommendations to the Board with respect to:
 - (iv) approving the content and filing of the reserves statement;
 - (v) the filing of the report of the reserves evaluator; and
 - (vi) the content and filing of the report of Management and Directors;as required or specified under all applicable laws, rules, regulations and policies including National Instrument 51-101 and amendments thereto.
6. While the Committee has the responsibilities, duties and authorities herein, it is not required to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditors and reserves evaluators. The Committee, its Chair and any of its members who have reserves evaluation, accounting or related financial management experience or expertise, are members of the Board, appointed to the Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as being "financially literate" or a "financial expert" is based on each such individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, designation as being "financially

literate” or a “financial expert” does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of any financially literate individual or financial expert, like the role of all Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Corporation’s financial information or public disclosure.

7. Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the information provided to the Committee by such persons or organizations, and (iii) representations made by management of the Corporation, the external auditors of the Corporation, the external reserves evaluation of the Corporation, independent counsel, and other advisors and experts to the Corporation and its subsidiaries.

D. ANNUAL REVIEW AND ASSESSMENT

The Committee shall conduct an annual review and assessment of its performance, including compliance with this Charter and its role, duties and responsibilities, and submit such report to the Board of Directors.

¹1.4 Meaning of Independence

- (1) An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a “material relationship” means a relationship which could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgement.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
- (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
 - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
 - (c) an individual who:
 - (i) is, a partner of a firm that is the issuer’s internal or external auditor;
 - (ii) is an employee of that firm; or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time.
 - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
 - (i) is a partner of the firm that is the issuer’s internal or external auditor;
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice; or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
 - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer’s current executive officers serves or served at the same time on the entity’s compensation committee; and
 - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.

- (4) Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because:
- (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
 - (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), direct compensation does not include:
- (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer; and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) Despite subsection (3) an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member: (a) has previously acted as an interim chief executive officer of the issuer; or (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
- (8) For the purpose of section 1.4, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

1.5 Additional Independence Requirements

- (1) Despite any determination made under section 1.4, an individual who
- (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
 - (b) is an affiliated entity of the issuer or any of its subsidiary entities,
- is considered to have a material relationship with the issuer.
- (2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
- (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
 - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
- (3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

² 3.5 Reserves Committee

- (1) The board of directors of a reporting issuer may, subject to subsection (2), delegate the responsibilities set out in section 3.4 to a committee of the board of directors, provided that a majority of the members of the committee.
- (a) are individuals who are not and have not been, during the preceding 12 months:
 - (i) an officer or employee of the reporting issuer or of an affiliate of the reporting issuer;
 - (ii) a person who beneficially owns 10 percent or more of the outstanding voting securities of the reporting issuer; or

- (iii) a relative of a person referred to in subparagraph (a)(i) or (ii), residing in the same home as that person; and
 - (b) are free from any business or other relationship which could reasonably be seen to interfere with the exercise of their independent judgement.)
- (2) Despite subsection (1), a board of directors of a reporting issuer shall not delegate its responsibility under paragraph 3.4(e) to approve the content or the filing of the information.

3 SEC. 407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL EXPERT.

- (a) RULES DEFINING “FINANCIAL EXPERT”. - The Commission shall issue rules, as necessary or appropriate in the public interest and consistent with the protection of investors, to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefore, the audit committee of that issuer is comprised of at least 1 member who is a financial expert, as such term is defined by the Commission.
- (b) CONSIDERATIONS. - In defining the term “financial expert” for purposes of subsection (a), the Commission shall consider whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions -
 - (1) an understanding of generally accepted accounting principles and financial statements;
 - (2) experience in -
 - (A) the preparation or auditing of financial statements of generally comparable issuers; and
 - (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
 - (3) experience with internal accounting controls; and
 - (4) an understanding of audit committee functions.
- (c) DEADLINE FOR RULEMAKING. - The Commission shall -
 - (1) propose rules to implement this section, not later than 90 days after the date of enactment of this Act; and
 - (2) issue final rules to implement this section, not later than 180 days after that date of enactment.